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Supreme Court of the United States.

OCTOBER TERM, 1973.

No. 73-1744

JULIUS E. FOSTER,
Petitioner,

v.

AMERICAN MACHINE & FOUNDRY CO. ET AL.,
Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit.

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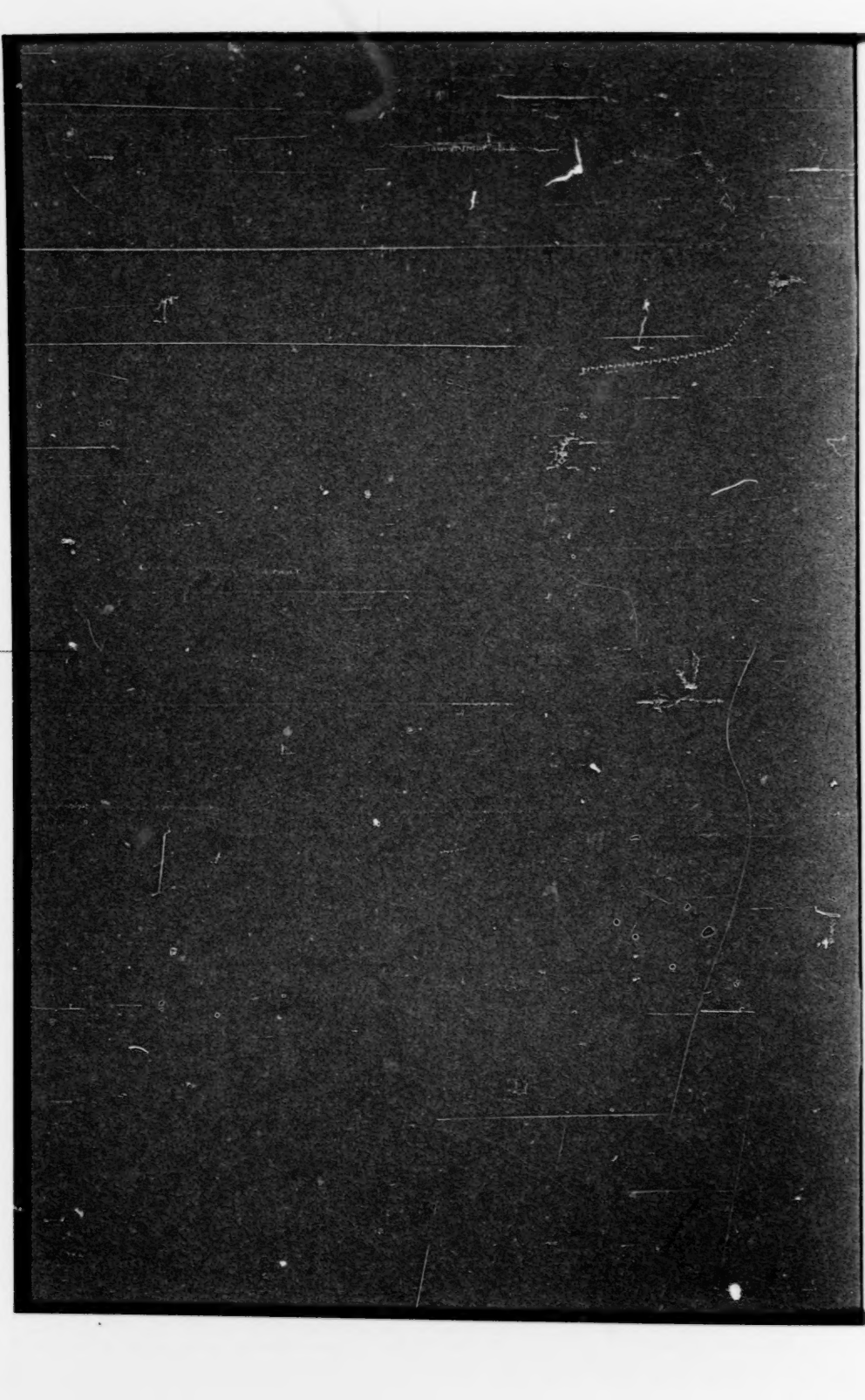

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Supreme Court of the United States.

OCTOBER TERM, 1973.

No.

JULIUS E. FOSTER,
PETITIONER,
v.
AMERICAN MACHINE & FOUNDRY CO. ET AL.,
RESPONDENTS.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Second Circuit.

Julius E. Foster prays that a writ of certiorari issue to review the decision of the United States Court of Appeals for the Second Circuit entered in this case on February 21, 1974.

Opinions Below.

The opinion of the United States Court of Appeals for the Second Circuit (Appendix A, *infra*, pp. 15-28) is not yet reported. That opinion affirms an order of the United States District Court for the Southern District of New York (Appendix A, pp. 34-37) confirming a report of the special master awarding petitioner $344,000 as "rea-

sonable royalties" for patent infringement, and then proceeding to order a compulsory license on all new infringements by defendants and their customers for the remaining four years of the life of plaintiff's patent.

Jurisdiction.

The judgment of the Court of Appeals (Appendix A, p. 15) was entered February 21, 1974; and this court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

Question Presented.

Whether the Constitution, the Federal Patent Act and controlling law empower the courts

(1) To force the owner of a process patent, held valid and infringed,[1] to grant against his will a "compulsory license" for all future new infringements of the patented process, and on royalty terms dictated by the court;

(2) To force the owner to accept a "reasonable royalty" based on the sale of a part only of a piece of *unpatented* apparatus and technology, and in substitution for the statutory mandate (35 U.S.C. § 284) of at least "a reasonable royalty *for the use made of the invention*" as defined by the *patented* process claims; or

(3) To force the owner to forfeit his statutory right (35 U.S.C. § 271(b) to hold the active inducer of the infringement of the process patent liable for the actual process infringement, and thereby, indeed, to force the owner to prosecute a multiplicity of suits against some

[1] *Foster* v. *Magnetic Heating Corporation, American Machine & Foundry Company et al.*, 297 F. Supp. 512 (S.D. N.Y. 1968), *aff.* 410 F. 2d 12 (2 Cir. (1969)), *cert. den.* 396 U.S. 829 (1969), 24 L. Ed. 2d 80.

70 direct infringers of the patented process, admittedly all infringing as a result of the licensing, sale of equipment and indemnification by the inducer.

Constitutional and Statutory Provisions Involved.

CONSTITUTION OF THE UNITED STATES.

Article I, section 8, clause 8.

> "The Congress shall have Power . . .
> "To promote the Progress of Science and useful Arts, by securing for limited times to . . . Inventors the exclusive Right to their . . . Discoveries. . . ."

Amendment V.

> "No person shall be . . . deprived of . . . liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation."

STATUTES:

35 U.S.C. § 102.

> "A person shall be entitled to a patent unless. . ."

35 U.S.C. § 284.

> ". . . the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for use made of the invention by the infringer. . . ."

35 U.S.C. § 271(b).

> "Whoever actively induces infringement of a patent shall be liable as an infringer."

Statement.

A. Summary.

The Foster patent, for a process for welding tubes and pipes, was found valid and infringed in *Foster* v. *Magnetic Heating Corporation, American Machine & Foundry Co. et al.*, 297 F. Supp. 512 (S.D. N.Y. 1968), *affirmed per curiam*, 410 F. 2d 12 (2 Cir. 1969), *certiorari denied*, 396 U.S. 829 (1969).

In adopting a special master's novel view on the accounting of a "reasonable royalty," predicated *not* on the "use" of the patented tube forming process, as required by statute (35 U.S.C. § 284), but on a portion of the sales price of pieces of welding apparatus and so-called "technology" *not even covered by the patent claims*, the Court of Appeals sustained what petitioner believes to be an illegal, insufficient and unconstitutional award of $344,000.

In addition, simply because plaintiff "was not in business" and does not "exploit the patent on his own," the Court of Appeals ordered a *compulsory license* for all future and new uses of the Foster patented process for the remaining four years of the life of the Foster patent, and on terms set by the court.

This *compulsory license* was not based on any inequitable or illegal conduct of petitioner, and was ordered over petitioner's protest that it violates his constitutional rights in his valid patent!

The *compulsory license in futura*, in addition, was established on a royalty fixed by the court that is based on a percentage of an *unpatented* part of the so-called Thermatool sales price of "technology," and not on the statutory requirement of at least "a reasonable royalty *for the use made of the invention*" (emphasis is added) of the patented process covered by the patent claims.

Additionally, for no clearly explained reason, the Court of Appeals discriminatorily stripped petitioner of his statutory right under 35 U.S.C. § 271(b), accorded all other holders of valid patents, to hold the admitted inducer of infringement liable for the actual process infringement by the users of the process invention, licensed and indemnified by the inducer, and who make the tubing and pipe by this patented process!

In fact, the Court of Appeals appeared to invite petitioner, rather, to bring a multiplicity of separate suits against "77 mill operators as direct infringers" (fn. 6, Appendix A, p. 21) in contravention of the express purpose of 35 U.S.C. § 271(b)!

B. Process Patent Claims are Involved.

Foster's method (claim 5) calls for a *complete process "of manufacturing welded tubing or pipe from strip or skelp,"* including *all* of the following steps:

(1) "folding the strip or skelp into cylindrical form to engage the seam edges progressively into butting contact,"

(2) "passing an electrical welding current across the seam in the region of the progressively butting contact,"

(3) "and setting up an alternating magnetic flux control field in that region of the path of the welding current stream, the magnetic flux control field being disposed physically and angularly relative to the current streams to establish an electrodynamic action between the control flux field and the flux field of the weld current to cause the current stream to reciprocate longitudinally of the seam in the region of the progressive contact."

This last step in this tube manufacturing process, the District Court held (297 F. Supp., at 515) in its original decision, was effected through the use of the appropriate

magnetic core "positioned with respect to the region of the electrodes and the V-shaped progressively engaged welding zone"; namely, in the case of defendants' structures, by its internal "magnetic core," termed "impeder" by defendants.

The other two welding method claims and the apparatus claim are further discussed by the District Court at page 515 of its original decision, *supra.*

It should be noted that none of the patent claims cover just the "impeder" referred to by the Court of Appeals, nor the Thermatool apparatus or technology per se, on part of the sales price of which, the so-called "reasonable royalty" was predicated.

In fact, the infringement originally found by the District Court in its earlier decision, *supra* (297 F. Supp.), on what it characterized as petitioner's "radically new idea" and "revolutionary concept" (p. 514), resided in the *use* of the defendant's Thermatool welding apparatus in its licensees' tube forming and welding production—"operated in their intended manners" (p. 516).

And in its final judgment after accounting (Appendix A, p. 35), par. 6, the District Court purports to award damages for "*the use* by purchasers and lessees of such welding equipment . . . *in production* of longitudinally welded tube and pipe."

And yet the award, contrary to the statutory requirement of a reasonable royalty based on such *use* of the process invention, was improperly and unconstitutionally based on welding components *not* covered by the claims of the Foster patent, and *not* on the use of the patented process to produce tubing.

C. The Compulsory Future License.

Apart from a statement of maintaining a " 'flexible approach' in patent litigation," and in order at least to give

petitioner "half a loaf . . . that seems fair" (Appendix A, p. 28), the Court of Appeals provided no basis for the unparalleled action of what it admitted is "compulsory licensing in favor of appellant at the royalty fixed by the Court."

As will later be shown, this action unconstitutionally deprived petitioner of the exclusive rights in his valid patent.

D. Deprival of Rights to Hold Inducer For the Process Infringement.

While the Court of Appeals states (fn. 6) it is *not* deciding "the question whether Foster could sue the 77 mill operators as direct infringers," it has apparently overlooked the fact that the final judgment after accounting, par. 6, does decide that question and *bars petitioner* from such action and from collecting for the actual direct infringement of the Foster process claims.

The District Court purported to decide that very question, finding that the award, while *not* based on the statutory requirement of a reasonable royalty on the use of the process invention,[2] was incongruously still to cover such "use by purchasers and lessees . . . in production of longitudinally welded tube and pipe."

In discriminatorily preventing petitioner from collecting from the admitted inducer of the infringement by the users of the process invention, as provided for by 35 U.S.C. § 271(b), and as urged by other courts in the

[2] Your petitioner's counsel was soundly criticized for attempting to invite the court's attention to the fact that this predicating of "reasonable royalty" on an unpatented item and wrong base, was an invention of the master, apparently colored by his firm's representation of a client (TOCCO) owning rights in defendant's very welding process technology here in litigation.

interest of preventing multiplicity of litigation, your petitioner again has been deprived of rights heretofore always accorded in litigation against joint tortfeasors.

Reasons for Granting the Writ.

A. THE COMPULSORY LICENSING ASPECT OF THE DECISION BELOW IS IN SERIOUS CONFLICT WITH PRIOR DECISIONS OF THIS SUPREME COURT AND IS CONTRARY TO THE CONSTITUTION AND THE REPEATED EXPRESSIONS OF THE CONGRESS.

Never before has any court undertaken to expunge the "exclusive" right of Article I, § 8, of the Constitution by granting compulsory licenses for the life of a valid patent and on terms fixed by the court—particularly absent wrong-doing by the patentee.

In its discourse as to balancing equities to justify the failure to grant an injunction, the Court of Appeals confuses its discretionary power not to enjoin the defendant and its customers from the *present* infringing activities or continuation of the same, with the usurped power to deprive petitioner *in futura* of all his constitutionally guaranteed "exclusive" rights on all *future brand new infringements* with other customers of defendants!

Significantly, the Court of Appeals cites (and can cite) *no case* that is authority for forcing compulsory licensing on new, future infringements for the life of a valid patent and on terms dictated by the court—all for the purpose of giving the patentee of a valid patent "half a loaf . . . that seems fair" (Appendix A, p. 28).

The Court of Appeals cites no case, furthermore, that forces a patentee to accept as a fee for that compulsory future blanket licensing a royalty based on an *unpatented* piece of apparatus or technology; where the valid and infringed patent claims cover a *process use* and the statute dictates at least a reasonable royalty based on such *"use of the invention"!*

The closest citation relied upon by the Court of Appeals was *Royal-McBee Corp.* v. *Smith-Corona Marchant, Inc.*, 295 F. 2d 1, 6 (2 Cir. 1961), but this falls far short of any such proposition.

In that case, the allowance of a royalty payment instead of an injunction was equitably predicated upon the patent holder's "misleading" of the infringer as to what it was not asserting to be an infringement!

There has admittedly been no inequitable or illegal conduct of petitioner alleged, proven or found in this suit, and no compelling public policy for this new principle of law of compulsory licensing and on terms dictated by the court, and based on *unpatented* items at that.

Indeed, this conduct by the Court of Appeals, predicated on the fact that petitioner is not "in business" or does not himself "exploit the patent on his own" (Appendix A, pp. 21, 28), has been heretofore *specifically rejected by the Supreme Court.*

Even though a patentee is not a commercial user of his patent, it has long been established that (*Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U. S. 405, 406, 430 (1908)):

> "An inventor receives from a patent the right to exclude others from its use for the time prescribed in the statute, and this right is not dependent on his using the device or affected by his non-use thereof, and, except in a case where the public interest is involved, the remedy of injunction to prevent infringement of his patent will not be denied merely on the ground of non-user of the invention. [headnote.]"
>
> . . . . . .
>
> "It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a

> prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee."

There is, indeeed, a long history of the refusal of Congress to legislate compulsory licensing; *Bulletin of the American Patent Law Association*, Oct.-Nov., 1972, pp. 717-721:

> "In summary, it is submitted that the subject of general compulsory licensing has been the subject of exhaustive legislative study for over 60 years. It has been the repeated conclusion of the legislature that no such legislation is warranted and none has been enacted."

Clearly this far-reaching and unconstitutional precedent by one of the most prestigious Courts of Appeals in the land should be promptly treated with by this Supreme Court, since its potential effect in revolutionizing the power of courts in patent cases, and setting a new and foreign precedent in our law, is most evident.

B. The Predicating of Statutory "Reasonable Royalty" On Unpatented Items Is In Conflict With Prior Decisions Of The Supreme Court and Other Courts of Appeals.

It is significant that neither the District Court nor the Court of Appeals cites, or even pretends to rely upon, a single precedent to support its allocation of a "reasonable royalty" to a part of a piece of apparatus or technology *that is not even covered by the patent claims!*

Indeed, while citing this Supreme Court's decision in *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U. S. 476 (1964), for another issue, the court proceeds to

sanction predicating royalty on *unpatented* items despite the clear admonition in that very case to the contrary (377 U. S. at 504-508). See also, *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502, 517 (1917); *Mercoid Corp.* v. *Mid-Continent Co.*, 320 U. S. 661, 667 (1944).

Nor does the Court of Appeals cite a single authority empowering the court, in so doing, to refuse to permit petitioner to have his statutory remedy which all the courts have heretofore unanimously interpreted a patentee to have; namely, a "reasonable royalty" on the actual *"use of the invention"*—*i.e.*, on the admittedly proven 1.7 billion dollars of infringing *use* of the *patented process* of the patent claims, and not on a part of the sales price of an unpatented part of an apparatus.

Before the present case, this had long been settled by the Supreme Court, as in *Mowry* v. *Whitney*, 14 Wall. 620, 652 (1871):

> "The patent is for an entire process, made up of several constituents. The patentee does not claim to have been the inventor of the constituents. The exclusive use of them singly is not secured to him. What is secured is their use when arranged in the process."

And even the Second Circuit Court of Appeals has previously obeyed the statute and awarded the reasonable royalty on the use of the patented invention. Thus, for example, in *Georgia-Pacific Corp.* v. *U. S. Plywood-Champion Papers Inc.*, 446 F. 2d 295 (2 Cir. 1971), the royalty was based on the production of the *patented* invention.

So, also, in other circuits, see decisions such as *Russell Box Co.* v. *Grant Paper Box Co.*, 203 F. 2d 177 (1 Cir. 1953).

The radical departure from established patent law in this particular, also, warrants this Supreme Court's intervention.

The consistent holding of this Court and all circuits has been that of requiring determination of a reasonable royalty for a process infringement based on its "utility, advantages, and the extent of use involved," and not on the sale of an unpatented item.

C. The Present Decision is in Conflict with the Supreme Court and Other Courts in Holding that Petitioner has No Right to Sue the Inducer-Licensor for the Process Infringement to Avoid Multiplicity of Suits.

The forcing of petitioner arbitrarily to forfeit his statutory entitlement (35 U.S.C. § 271(b)) to hold the admitted inducer-licensor of the patented process infringement liable for the actual process infringement is in direct and mischievous conflict with the prior decisions of all other courts of appeals and their district courts of which petitioner is aware; for example, *Moseley* v. *United States Appliance Corp.*, 155 F. 2d 25 (9 Cir. 1946), and *Morris Bean & Co.* v. *Reichhold Chemicals, Inc.*, 329 F. Supp. 1396 (D.C. N.D. Ala. W.D. 1971).

If patent owners are thus required to institute multiple suits against each direct infringer and § 271(b) is to be abrogated, the number of patent suits in the various district courts will increase several-fold, maybe ten or twenty times the present number of one thousand per year—a matter of expressed concern to this Supreme Court in *Blonder Tongue Laboratories* v. *University of Illinois Foundation*, 402 U.S. 313 (1971).

The awarding of relatively low damages based on the unpatented product sales of the inducer-licensor, and the refusal to charge the inducer with liability for the greater damages of the infringement of the patented process claims by the licensee-customers of the inducer, whom the inducer

has agreed to indemnify, reflects a wide departure from the long-established law of this Supreme Court and all the courts of the land as to the liability of joint tortfeasors, altogether apart from 35 U.S.C. § 271(b) (86 Corpus Juris Secundum, Torts, § 34, note 9).

Again, the decision herein departs widely from the established law in other circuits and in this Supreme Court.

D. Summary.

The mischief, confusion and discrimination inherent in this usurpation of power by one of the most prestigious courts of appeals of the land should not be permitted to stand.

It is so contrary to all prior pronouncements of this Supreme Court and all other courts of the land; it is so repugnant to the specific statutory mandate of Congress as to damages for patent infringement as interpreted by all other courts; and it is so violative of the guaranteed "exclusive" privilege of Articles I, § 8, and of the Fifth Amendment of the Constitution as to require this Supreme Court's prompt intervention to preserve the sanctity and integrity of the law.

The decision and the conflict it raises throws into utter confusion the exclusive privilege of valid patents and the rights of patentees, and the right of Congress, not the courts, to prescribe the statutory damages to be awarded.

The conflict of decisions is patent—and the issues are substantial and important, involving the whole substance of the "exclusive" grant of a patent and the rights flowing therefrom.

No reason is seen why long-established law, settled by this Supreme Court and so interpreted by all the other courts of appeals since the beginnings of this country, should now be uprooted and discarded.

Conclusion

The decision is in hopeless and violent conflict with decisions of other courts of appeals and this Supreme Court. It misapplies decisions of this Supreme Court. In striking down the "exclusive" right in a valid patent, and thwarting the statutory and decisional law as to infringement liability, it raises most substantial questions of federal and constitutional law which should be promptly decided by this Court.

The petition for certiorari should accordingly be granted.

Respectfully submitted,

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RINES AND RINES,
PAUL J. FOLEY,
Attorneys for the Petitioner.

APPENDIX A.

UNITED STATES COURT OF APPEALS

For the Second Circuit

No. 230 September Term 1973

Argued: December 4, 1973 Decided: February 21, 1974

Docket No. 73-1822

JULIUS E. FOSTER,

Plaintiff-Appellant,

—against—

AMERICAN MACHINE & FOUNDRY CO.,
MAGNETIC HEATING CORPORATION,
THERMATOOL CORPORATION,
DAVID G. OSTERER,
HERMAN C. MORRIS,

Defendants-Appellees

Before WATERMAN and FEINBERG, Circuit Judges, and GURFEIN,* District Judge.

Appeal from an order of the United States District Court for the Southern District of New York, Hon. Edmund L. Palmieri, *Judge*, confirming the Report of the Special Master and awarding the plaintiff reasonable royalties for patent infringement in the amount of $344,000 with interest from the date of the filing of the Special Master's Report and denying injunctive relief and ordering compulsory license.

Affirmed.

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* Of the United States District Court for the Southern District of New York, sitting by designation.

PAUL J. FOLEY, Washington, D.C.
(Belen and Foley, Washington, D.C.; Robert H. Rines, Rines and Rines, Boston, Mass.; and Franklin R. Weissberg, Colton, Weissberg & Yamin, New York, N.Y., of counsel), Attorneys for Plaintiff-Appellant.

WILLIAM K. KERR, New York, N.Y.
(Fish & Neave, Herbert E. Schwartz, Raymond C. Marier, New York, N.Y. and Frank H. Gordon, Rogers, Hoge & Hills, New York, N.Y., of counsel), Attorneys for Defendants-Appellees.

GURFEIN, D.J.:

This is an appeal from a judgment of the District Court, Palmieri, J., confirming the Report of the Special Master, Dana M. Raymond, which awarded the plaintiff reasonable royalties for the defendants' infringement of his patent in the amount of $344,000 with interest from the date of the filing of the Master's Report, which denied injunctive relief, and which ordered a compulsory licensing on a reasonable royalty fixed by the Court, in lieu thereof. The issues of validity and infringement are not before us on this appeal, having previously been resolved in *Foster* v. *Magnetic Heating Corporation*, 297 F. Supp, 512 (S.D.N.Y. 1968), *aff'd per curiam*, 410 F.2d 12 (2 Cir.), *cert. denied*, 396 U.S. 829 (1969) ("Foster I"). For the reasons set forth below, we affirm the judgment.

Since Judge Palmieri's opinion in *Foster I* explicated his findings that Foster's patent was valid and infringed, it is unnecessary to repeat those findings in detail. Some discussion of the facts is necessary, however, for an understanding of the question of the relief appealed from, including the proper measure of damages.

The plaintiff is the inventor of Patent No. 2,882,384 entitled "Welding System." This welding system is essen-

tially an impeding device. "It relates to the progressive continuous welding of such items as sheet metal tubes with the aid of a pair of electrodes to which is applied an alternating current voltage for the purpose of supplying electric current for heating the edges of the tube to weld the same together in a continuous process as the sheet metal is folded into tubular form and drawn past the electrodes." (297 F. Supp. at 514). The Foster patent included "use" claims as well as "apparatus" claims. The utility of the invention is found in Judge Palmieri's description of the prior art and the teachings of the patent in suit: "Welding apparatus of this character had long preceded the Foster invention, since at least the early 1920's, but was subject to spotty heating effects that produced discontinuous welding spots or beads which left the welded tube with spaced unwelded regions and stress-concentration weakened zones, which prohibited the use of such tubes in applications where they were required to pass fluids or the like or where they were to be pressurized." 297 F. Supp. at 514.

The Foster patent relates to an improvement in electrical contact resistance welding, one of several systems for longitudinal welding of pipes and tubes, which was exemplified in the Foster patent by application to low frequency welding. The key feature of the Foster patent is the use of electromagnets, positioned in the vicinity of the welding zone, for the purpose of controlling or influencing the path of the welding current.

The appellant, Julius E. Foster, the patentee and the owner of the patent in suit, is a patent solicitor and a member of the Bar of the State of New York and of the Commonwealth of Pennsylvania. He has been at the Bar for almost fifty years. He has never engaged in any manufacturing or other business connected with the patent in suit.

The principal defendant and real party in interest is American Machine & Foundry Co. (AMF). Infringement of the patent has occurred as a result of the commercial activity of AMF's wholly-owned subsidiary, AMF Thermatool, Inc., and its predecessors,[1] and the individual proprietors of such predecessor corporations (herein collectively referred to as Thermatool). Thermatool manufactured welding machinery, which included *as a component* an impeder which embodied the process protected by Foster's patent.[2]

Thermatool in turn sold and leased the welding systems, both those containing the infringing impeder and those without it, to foreign and domestic mill producers for the production of longitudinally welded tubes and pipes.[3] The Master found that "the value of the impeder process, as disclosed in the Foster patent, constitutes a minor but significant fraction of the total value of Thermatool's welding technology."

I

The primary issue on this appeal is the amount of damages to which Foster is entitled.

The Master and the District Court applied the willing licensor-willing licensee approach to hypothetical negotia-

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[1] Which includes Magnetic Heating Corp.

[2] Thermatool also manufactures and sells other welding systems which do not employ impeders and do not infringe the appellant's patent.

[3] AMF has never manufactured or sold any low frequency electric resistance welding systems of the kind described in the Foster patent. Impeders, which were found to correspond in function to the electromagnets of Foster's patent, are found in some, but not all, of AMF's high frequency contact resistance longitudinal welding equipments.

tions conducted in 1959-1961 between Foster, as a willing licensor, *and Thermatool,* as a "willing licensee who would respect the Foster patent." See *Georgia-Pacific Corp.* v. *U.S. Plywood-Campion Papers, Inc.*, 446 F.2d 295 (2 Cir.), *cert. denied*, 404 U.S. 870 (1971). Based upon this approach, the Master concluded that "[t]he parties would have agreed upon a royalty measured by the output power of Thermatool's equipment adapted for use of the Foster impeder process" of $20 per kilowatt of rated output power of Thermatool's welding equipment, "such royalty to be paid for a license to Thermatool to continue its manufacture and sale of the equipment and for a license to Thermatool's customers to use the equipment." The District Court confirmed the report of the Master.[4]

On this formula, the District Court entered judgment for Foster in the sum of $344,000, with interest at 6% from September 22, 1972, the date of filing of the Special Master's Report.

Foster appeals upon the ground that the judgment is grossly inadequate. He agrees that the proper measure of damages is a "reasonable royalty," but he contends that it should be based upon the extent of use of his "welding system" by the *mill operators* who leased the welding equipment containing the infringing impeder from Thermatool.

He says that Thermatool induced the infringement by the mill operators, and, hence, is an infringer within the meaning of 35 U.S.C. § 271(b). That subsection provides

[4] The Master rejected AMF's contention that the royalty should be based on the "weld head" in Thermatool's equipment, because the Foster invention disclosed and claimed a "process" for improved welding, and not merely an "improved weld head." On AMF's theory, the royalty, at 2% of the aggregate sales price of the infringing weld heads, would have amounted to only about $10,500.

that "[w]hoever actively induces infringement of a patent shall be liable as an infringer." Arguing that Thermatool is an "inducer" rather than a direct infringer, appellant doubles back to 35 U.S.C. § 284 and says that appellant should be awarded "in no event less than a reasonable royalty for the use made of the invention by the infringer." If the infringer is the mill operator, he argues, then the "use of the invention" must be the use made by the mill operator and *that* use should measure the damages. He contends that damages so measured should be imposed upon the inducer, because under 271(b) he is liable as if he were the infringer, and because he is, in any event, a joint tort-feasor, liable *in solido*.

The argument, which has some surface plausibility, is without merit.

The Patent Law was amended in 1946, to provide for the award of "damages" only; and not, as had previously been the case, for an accounting of the profits of the infringer. Act of August 1, 1946 c. 726 § 1, 60 Stat. 778, 35 U.S.C. (1946 ed.) §§ 67, 70.[5]

We have been instructed that "the present statutory rule is that only 'damages' may be recovered." *Aro Mfg. Co.* v. *Convertible Top Replacement Co.*, 377 U.S. 476, 507 (1964). As noted in *Aro Mfg. Co.*, damages are " 'compensation for the pecuniary loss he [the patentee] suffered from the infringement, without regard to the question whether the defendant has gained or lost by his unlawful acts.' *Coupe* v. *Royer*, 155 U.S. 565, 582." (377 U.S. at 507). Damages to the patentee constitute "the difference between his pecuniary condition after the infringement, and what his condition would have been if the infringement

[5] In the 1952 Codification, §§ 67 and 70 of the 1946 Code were consolidated in the present § 284.

had not occurred." *Id.*, citing *Yale Lock Mfg. Co.* v. *Sargent*, 117 U.S. 536, 552.[6]

If we ask ourselves how much Foster would have made if Thermatool had not infringed, the answer must be zero. But Congress was not satisfied to leave the award, in such case, at zero. 35 U.S.C. § 284.[7]

Since appellant would prove no damages at all under the tests noted in *Aro, supra,* because he was not in business either directly or through licensees, he is entitled *only* to the reasonable royalty for use of the invention.

Foster urges that a "reasonable royalty" for such use by the mill operators would result in a royalty of $52,000,000 from the sale of 77 "equipments" instead of the $344,000 that was awarded. He notes that there are 69 tube mill operators who have produced $1,750,000,000 worth of longitudinally welded tube and pipe, employing the infringing Thermatool welding systems. Postulating a reasonable royalty of 3%, the appellant concludes that his damages amount to $52,000,000.

The Master found that "[s]uch damages would be in excess of the total revenues of Thermatool during the ac-

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[6] We note, in passing, that *Aro Mfg. Co., supra,* did not deal with an "active inducer" (§ 271(b)), but with a contributory infringer (271(c)), which Thermatool was not. We do not deal here with the question whether Foster could sue the 77 mill operators as direct infringers. And we do not have occasion to construe Mr. Justice Black's statement, dissenting in *Aro Mfg. Co., supra,* 377 U.S. at 523: "The Court holds, quite properly I think, that a patentee can get only one recovery for one infringement, no matter how many different persons take part in the infringement.

[7] The "reasonable royalty" concept was originally adopted by the courts in order to fix damages in the absence of an established royalty or to compensate a patentee unable to demonstrate any actual damage. *Dowagiac Mfg. Co.* v. *Minnesota Moline Plow Co.,* 235 U.S. 641 (1915). See *Russell Box Co.* v. *Grant Paper Box Co.,* 203 F. 2d 177 (1 Cir. 1953); *Munger* v. *Perlman Rim Corp.,* 275 Fed. 21 (2 Cir. 1921).

counting period and far in excess of the revenues and profits of Thermatool in respect of its domestic sales of welding equipment." And the District Court agreed.

As indicated, the Master related the "reasonable royalty" theory to hypothetical negotiations between Foster and Thermatool, rather than between Foster and the 69 mill operators. He also disposed of the theory that such negotiations with the mill operators would have produced a greater royalty. Support for such theory would have to be found in a history evidencing willingness by the mill operators to pay a running, or throughput royalty, based on their production, for rights to the welding process. The Master found that the evidence was to the contrary, a finding confirmed by the District Court. We cannot say that the finding was clearly erroneous.

35 U.S.C. § 284 provides:

> "Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court."

"This rule contemplates a suppositious meeting in advance of infringement between patent owner and potential infringer in order to work out a license agreement,"[8] Feinberg, J., in *Georgia-Pacific Corp., supra,* 446 F.2d at 296-297.

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[8] We think the Master properly expressed the concept when he presumed that in the "negotiations" prudent businessmen would arrive at a reasonable royalty "which would (1) provide a fair return to Foster and (2) permit Thermatool to continue its use of the infringing impeder process and earn a reasonable profit from such use."

If we treat the mill operator as the infringer, there is no substantial evidence that he would have agreed to any royalty for the use of the infringing impeder at the "suppositious meeting." As Judge Palmieri held, there were two factors which operated to limit the damages of the plaintiff: "(1) [p]ipe and tubing manufacturers customarily do not pay running royalties to the owners of welding process patents; and (2) [p]laintiff's patent represents a relatively small portion of the overall commercial value of Thermatool's high frequency welding system. Since running royalties are not customary in the pipe and tubing industry, it is unlikely that any producer would have been willing to pay such royalties for the use of equipment that employed plaintiff's impeder." We agree. The question was, what would a reasonable man be willing to pay for the use of a part of the whole process. *Merrill Soule Co.* v. *Powdered Milk Co. of America,* 7 F.2d 297, 299 (2 Cir. 1925).

A portion of the lump-sum sale price of the Thermatool equipment in its entirety may be said to have been paid for the Foster process, even though the customer was not charged a separate fee; but that is the very basis on which the District Court determined the reasonable royalty, noting that "plaintiff's impeder had a relatively small effect on the commercial value of defendants' high frequency welding system. . . ."

In practical terms, Foster had a patent which obviously required the manufacture of a piece of equipment to make it usable. Foster does not have any licensee who manufactures his patented apparatus or uses his patented process. The parameters of his patent embraced a component in a larger system which utilized his process. He did not have equipment to sell directly to the mill operators. He was hardly in a position to work out an agreement directly

with the mill operators. His theoretical licensee, in the formulation of a license agreement, was the manufacturer of the welding equipment who could use his process. And it is precisely in hypothetical negotiation with that prospective licensee that the District Court fixed the reasonable royalty.

Finally, we note that there are no other factors that would have been considered at the "suppositious meeting" to determine the reasonable royalty. Since Foster never operated commercially, there are no such factors as Foster's marketing program, Foster's lost sales of nonpatented items because of the infringement, or Foster's lost profits.

Appellant contends that even upon the theory of a reasonable royalty based on appellees' sales, the $20 per kilowatt royalty found by the District Court is a finding that is clearly erroneous. The total royalty awarded in the sum of $344,000 represents more than 3 per cent of the total sales price of the welding systems sold by Thermatool. These welding systems, including the step of turning the sheet metal into tubing, except for the use of the impeder, were found by the Master to be based on the teaching of the Park Patent No. 2,794,108, filed August 31, 1953, and issued May 28, 1957, owned by AMF. The Master found that "the Park patent disclosed and claimed the process and system for high frequency contact resistance welding of longitudinal seamed tubing for which all of Thermatool's welding systems involved in this accounting have been designed." The impeder is only a part of the entire high frequency contact resistance welding equipment sold by Thermatool, and an even smaller part of the entire welding complex. Significantly, the Foster impeder process is not used commercially in any electrical resistance welding systems at low frequencies, although such use was also disclosed in the Foster patent.

The royalty awarded of $20 per kilowatt is 10% of $200, an amount which the Master found Thermatool to have charged its customers "for the right to use Thermatool's welding technology (know-how and patents) and for services in connection therewith." The $20 per kilowatt royalty for the Foster impeder process properly took into account, we think, that the Foster process was "an improvement or supplement to Thermatool's high frequency process, rather than *vice versa*," and that "the selling price of Thermatool's equipment is accounted for in major part by the high frequency generator as to which Foster contributed nothing." We cannot say that the finding that "[t]he parties would have agreed on a royalty at a rate of $20 per kilowatt on all infringing equipment sold for use in the United States after April 14, 1959" was clearly erroneous. See *Columbia Machine & S. Corp.* v. *Adriance Machine Works*, 79 F. 2d 16 (2 Cir. 1935). "There is no mathematical formula for the determination of a reasonable royalty." See *Faulkner v. Gibbs*, 199 F. 2d 635, 639 (9 Cir. 1952).

In sum, we affirm the award of damages by the District Court.

II

Appellant contends that appellee failed to account for an additional 37 units which should have been, but were not, included in the Master's determination of the royalties to be awarded. On the royalty formula adopted by the Master and approved by the Court, this would require an additional maximum recovery of $37,000.

Twenty-six of these units were sold before April 14, 1959, the issue date of the Foster patent. Eleven of these units were allegedly sold after the issue date.[9]

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[9] Although these units were sold before the Foster patent issued, their impeder process relied on the Rudd 488 patent, owned by

With respect to the units sold *before* the issue date of the Foster patent, the sale could not have been, at the time, an infringement, or an inducement to infringe. *Coakwell* v. *United States,* 372 F.2d 508, 511 (Ct. Cl. 1967). The units sold were Thermatool's infringing units. We think that the continued use of the welding systems by the mill operators after the flat payment for the systems when bought, did not later constitute an infringement of the after-issued Foster patent. See *Aluminum Extrusion Co.* v. *Soule Steel Co.,* 260 F. Supp. 221, 224 (C.D. Cal. 1966). All the revenues from these sales were derived by AMF before the Foster patent issued.

Since Foster has shown no actual damage, we revert to the "suppositious meeting" after the Foster patent issued, to fix a royalty. We agree with Judge Palmieri "that the parties would have agreed that no royalty would be payable with respect to infringing equipment sold prior to the issuance of plaintiff's patent."

With respect to the eleven units allegedly sold after the issue of the Foster patent, the Master found that "the evidence does not establish that such eleven units have actually been fitted with impeders and operated in the United States for the production of longitudinally welded tube and pipe." The appellant points to no evidence to convince us that the finding is clearly erroneous.

III

Judge Palmieri, as we have seen, awarded interest on the sum awarded from September 22, 1972, the date of filing of the Special Master's Report to the date of judgment.

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appellee, which is the same in all material respects as the impeder process disclosed in the *earlier filed* Foster patent. (See *Foster I,* 297 F. Supp. 512 (Palmieri, J.)). The Rudd patent has been held to be the subservient patent.

Appellant contends that, since the award was based on a hypothetical license entered into immediately upon the issuance of his patent, he is entitled to interest on the royalties that should have been paid from that time to judgment. He says that the interest should run equitably on the outstanding infringing sales of each year from the end of each such year.

We think that under prior authority in this Court, appellant's argument cannot prevail as a matter of law. In *Georgia-Pacific Corp., supra,* this Court resolved the issue of statutory construction. This Court noted that while the 1946 House Report [10] provided for "interest from the time the infringement occurred," the final version of 35 U.S.C. § 284 speaks of "interest and costs as fixed by the court." It was held, accordingly, that "Congress did not purport to require interest from the dates on which royalties would normally have been paid." 446 F. 2d at 301. Instead, the statute was construed to mean that the trial court has the traditional discretionary power in equity to award interest. We cannot find, in the absence of a statutory mandate, that Judge Palmieri was required to award interest from an earlier date. See also *General Electric Company* v. *Sciaky Bros., Inc.,* 415 F. 2d 1068, 1076 (6 Cir. 1969).

IV

Appellant contends that the District Court erred in denying an injunction and adjudging, in lieu thereof, a compulsory licensing in favor of appellant at the royalty fixed by the Court.

We do not find any difficulty in agreeing with Judge Palmieri that an injunction would be an inappropriate remedy in this case. An injunction to protect a patent against infringement, like any other injunction, is an equi-

[10] H.R. Rep. No. 1587, 79th Cong. 2d Sess. (1946), to accompany H.R. 5311 at 1-2 quoted in *Aro, supra,* 377 U.S. at 505-506.

table remedy to be determined by the circumstances. 35 U.S.C. § 283. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance. See *Hoe* v. *Boston Daily Advertiser Corp.*, 14 Fed. 914 (C.C. Mass. 1883). Here, as the District Court noted, the defendant manufactures a product; the appellant does not. In the assessement of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable. *Nerney* v. *New York, N.H. & H.R. Co.*, 83 F.2d 409, 410-411 (2 Cir. 1936); *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F. 2d 734 (2 Cir. 1934).

Instead, the District Court avoided ordering a cessation of business to the benefit of neither party by compensating appellant in the form of a compulsory license with royalties. This Court has approved such a "flexible approach" in patent litigation. *Royal-McBee Corp.* v. *Smith Corona Marchant, Inc.*, 295 F. 2d 1, 6 (2 Cir. 1961). Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, *that seems fair.*

Judgment affirmed.

FOSTER v. AMERICAN
MACHINE & FOUNDRY CO.
73-1822
Feb. 15, 1974
I concur
IRW

FOSTER v. AMERICAN
MACHINE & FOUNDRY CO.
I concur
UF
Feb. 4, 1974

CIV 249 OPIN 524

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK.

JULIUS E. FOSTER,
Plaintiff,
—against— 65 Civil 1114
ELP

MAGNETIC HEATING CORPORATION,
THERMATOOL CORPORATION,
DAVID G. OSTERER,
HERMAN C. MORRIS,
AMERICAN MACHINE & FOUNDRY COMPANY,
Defendants.

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Special Master

PALMIERI, J.

The attached judgment is consistent with the decision announced tentatively from the bench on December 20, 1972. Consideration of the briefs submitted thereafter by the parties has not altered the Court's views in any respect except for the matter of the contingent fee arrangements by plaintiff with his counsel to which reference is made below.

The filing of this judgment marks the end of a lengthy episode of litigation in this Court.

This suit was commenced on April 14, 1965. The plaintiff, Julius E. Foster, the patentee and owner of the patent

in suit, is a patent solicitor and a member of the Bar of the State of New York and of the Commonwealth of Pennsylvania. He has been at the Bar for almost fifty years. He has never engaged in any manufacturing or other business connected with the patent in suit nor have there been any licenses under it. This state of facts resulted in making the ascertainment of damages a far more difficult task than would otherwise have been the case.

The trial took place on June 5 and June 6, 1968. Findings of fact and conclusions of law supporting Foster's claims of validity and infringement were entered on August 23, 1968 (297 F. Supp. 512). The Court of Appeals for the Second Circuit affirmed with a *per curiam* opinion on March 20, 1969 (410 F. 2d 12). An interlocutory decree was entered on September 11, 1968, referring the matter to a Special Master "to take and report account of the damages sustained by plaintiff by reason of said infringement." The proceedings before the Special Master were lengthy. They involved, in addition to the hearings and the taking of testimony, the conduct of extensive discovery proceedings initiated by plaintiff. After considering briefs and oral argument, the Special Master submitted a draft report to the parties on July 17, 1972, held an additional hearing on September 6, 1972, and submitted his final report on September 22, 1972. The case then came before the Court on plaintiff's and defendants' objections to the report. Rule 53(e)(2), Fed. R. Civ. P. After considering the record, which by this time had grown to impressive proportions, the report of the Special Master, and the briefs and oral arguments of counsel, a tentative oral decision was delivered from the bench on December 20, 1972, substantially confirming the report of the Special Master. The parties were invited to submit their objections to this proposed decision. They have been considered and must be deemed to be overruled except with respect to the Court's

restriction of the contingency fee arrangements made by plaintiff with his counsel. What was said by the Court on December 20, 1972, in this respect must be deemed to be withdrawn. In all other respects the tentative decision of December 20, 1972, is adopted as the Court's final decision.

By way of explanation something more must be said. On many occasions throughout the accounting proceedings sharply worded charges have been made by plaintiff's counsel against the defendants. These charges accusing defendants of failure to comply with orders of the Special Master and of failure to permit discovery were accompanied by numerous requests for the imposition of sanctions upon the defendants for contempt and other relief. Those actions by plaintiff, coupled with the unduly extensive and peripheral discovery in which he engaged, resulted in creating an undue burden for the Special Master and in an inordinate protraction of the proceedings before him. The plaintiff's charges were unfounded and his requests for the imposition of sanctions were all properly denied by the Special Master. He correctly concluded that the defendants had conducted themselves with "dispatch and candor" and attributed to the plaintiff the responsibilty for the undue length of the accounting. He was fully justified in reaching these conclusions.

Additionally, the Special Master himself was not spared from becoming the target of plaintiff's attacks. In the final chapter of the accounting, and when plaintiff was aware that the Special Master's award would not fulfill his multimillion dollar expectations, the plaintiff levelled the sharp points of his verbal barbs at the Special Master himself claiming for the first time that he should be disqualified because of an alleged conflict of interest. The plaintiff continued to mount this attack in his objections to the report filed with the Court. It would serve no useful purpose to examine these attacks here in any detail. Suffice to say that

they are specious and unpersuasive, and that they were made belatedly and long after plaintiff knew or should have known of the alleged grounds for disqualification. A party knowing of a ground for requesting disqualification cannot be permitted to wait and decide whether he likes the subsequent treatment he receives. *In Re United Shoe Machinery Corporation,* 276 F. 2d 77, 79 (1st Cir. 1960). Moreover the plaintiff has expressly disclaimed any reflections upon the Special Master because of bias or prejudice. The plaintiff's charges are completely rejected by this Court.

Finally, and solely because I believed these multiple attacks and the undue prolongation of the accounting proceedings were causally related in substantial measure to the contingent fee interests of plaintiffs' counsel,[1] this Court tentatively decided on December 20, 1972, to limit their contingent fees to a total of 30% of plaintiff's recovery. However, this restriction is withdrawn in the light of the affidavit filed by the plaintiff-attorney who regards his counsel's efforts and their "thousands of hours" of labor to be commensurate with the expected contingent fees which will amount to something more than 40% of the recovery for three attorneys.[2] Accordingly, the judgment filed herewith makes no reference to any control of the contingent fees by the Court.

Lastly this Court addresses its thanks to the Special Master, Dana M. Raymond, Esq., for his long and arduous

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[1] At the hearing on December 20, 1972, this Court stated: "My only view is that the hours amassed by the Special Master were amassed because of the undue and unnecessary prolongation of these proceedings by unduly extensive and peripheral discovery in this case and that there has been an unduly aggressive and zealous attempt to enlarge this recovery beyond any possible justification." (Tr. p. 17)

[2] Upon the hearing of December 20, 1972, it was represented to the Court that each of two attorneys would receive a 20% contingency fee, while an arrangement would be sought to defray the fees of a third attorney.

efforts. His report represents the fruits of a task well done. His dedication and scholarly application are deeply appreciated.

EDMUND L. PALMIERI
U. S. D. J.

Dated: New York, N. Y.
February 8, 1973

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT, NEW YORK

JULIUS E. FOSTER,
Plaintiff,

65 Civil 1114 ELP

v.

MAGNETIC HEATING CORPORATION,
THERMATOOL CORPORATION,
DAVID G. OSTERER,
HERMAN C. MORRIS,
AMERICAN MAGNETIC & FOUNDRY CO.
Defendants.

Final Jugment After Accounting.

There having been entered in this cause an Interlocutory Judgment on September 11, 1968, and a Final Decree (after affirmance on appeal, except for accounting) on June 11, 1969; this cause then having been referred to Dana N. Raymond, Esq., as Special Master to take and report an account of the damages sustained by plaintiff; the Special Master having filed his report on September 22, 1972; plaintiff then having moved this Court for an Order (a) rejecting the report of the Special Master, (b) adopting the find-

ings which plaintiff unsuccessfully urged to the Special Master, (c) disqualifying the Special Master, (d) awarding to plaintiff interest from the year of first infringement, (e) awarding to plaintiff increased (trebled) damages, defendants having objected only to the amount of the award recommended by the Special Master and having opposed plaintiff's motion; counsel for the parties having filed briefs on these issues and the Court having heard oral argument on December 20, 1972, and having rendered its decision, it is

ORDERED, ADJUDGED and DECREED that:

1. The Report of Special Master submitted herein on September 22, 1972 is confirmed in all respects.

2. Plaintiff's motion to adopt the findings which he unsuccessfully urged to the Special Master is denied.

3. Plaintiff's motion to disqualify the Special Master is denied.

4. Plaintiff's motion for interest from the year of first infringement is denied.

5. Plaintiff's motion for increased (trebled) damages is denied.

6. Plaintiff's damages for infringement of claims 5, 16, 19 and 22 of Foster patent No. 2,882,384 based on (a) defendants' manufacture, lease and sale of high frequency contact resistance welding equipment with impeders and (b) the use by purchasers and lessees of such welding equipment are assessed at the rate of $20 per kilowatt of the rated output power of each high frequency contact resistance welding equipment with impeders sold or leased by defendants for use in the United States in production of longitudinally welded tube and pipe for the period from April 14, 1959 to the date of filing of the Special Master's Report (September 22, 1972). This amounts to the sum of $344,000. Plaintiff shall have judgment against defendants in the amount of $344,000.

7. Plaintiff shall have interest on such sum of $344,000 at the rate of 6% per annum from September 22, 1972 until the date of entry of this judgment and at the rate of 7½% from that date until the judgment and interest are paid or satisfied.

8. The Special Master is entitled to receive $50,000.00 as compensation for his services and $381.11 for disbursements in connection with the accounting herein. Defendants shall pay $40,381.11 of this sum, and plaintiff shall pay $10,000 of this sum. Payment of the Special Master's fee shall be accomplished by defendants paying the full amount of $50,381.11 to the Special Master within 30 days from the date of entry of this judgment and deducting plaintiff's share of this fee ($10,000) from plaintiff's $344,000 judgment set forth in Paragraph 6, *supra*.

9. In the exercise of the Court's discretion, no injunction shall issue prohibiting (a) defendants, or any of them, including the successors and assigns of the business of defendants, or any of them, from manufacturing, selling, leasing and using equipment which would infringe claims 5, 16, 19 and 22 of Foster patent No. 2,882,384 or (b) purchasers or lessees of any such equipment from using it.

10. Defendants, and the successors and assigns of the business of defendants, or any of them, shall pay to plaintiff the sum of $20 per kilowatt of the rated output power of each high frequency contact resistance welding equipment with impeders sold or leased by them from the date of the filing of the Master's Report (September 22, 1972) until the expiration date of the Foster patent (April 14, 1976) for use in the United States in the production of longitudinally welded pipe and tube, which equipment or the use thereof would infringe any of claims 5, 16, 19 and 22 of Foster patent No. 2,882,384.

11. The payments recited in Paragraph 10 of this Order shall be made on an annual basis. Each year's payment shall be made within 60 days after the end of the calendar year in which they were accrued, and shall be accompanied by a statement by a statement setting forth the basis for such payment.

12. The payment of the sums recited in Paragraph 10 of this Order shall constitute full compensation to plaintiff for infringement of claims 5, 16, 19 and 22 of his patent No. 2,882,384, by defendants, including the successors and assigns of the business of defendants, or any one of them, and the purchasers and lessees of any of defendants' welding equipments from the date of filing of the Master's Report (September 22, 1972) until the expiration of the Foster patent (April 14, 1976).

Dated: New York, New York
February 8, 1973

EDMUND L. PALMIERI
U.S.D.J.

JUDGMENT ENTERED FEB. 8, 1973

JOHN LIVINGSTON
Clerk

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JUN 17 1974
MICHAEL RODAK, JR., CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-1744

JULIUS E. FOSTER,

Petitioner,

v.

MAGNETIC HEATING CORPORATION, THERMATOOL CORPORATION, DAVID G. OSTERER, HERMAN C. MORRIS, AMERICAN MACHINE & FOUNDRY COMPANY,

Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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June 17, 1974

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CONSTITUTION AND STATUTES

CONSTITUTION:

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§ 283 ..... 3, 8

§ 284 16

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-1744

JULIUS E. FOSTER,

Petitioner,

v.

MAGNETIC HEATING CORPORATION, THERMATOOL CORPORATION, DAVID G. OSTERER, HERMAN C. MORRIS, AMERICAN MACHINE & FOUNDRY COMPANY,

Respondents.

RESPONDENTS' BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

There is nothing about this patent case which warrants review by this Court.

The decision of the Court of Appeals for the Second Circuit, awarding petitioner $344,000 in damages for respondents' infringement of petitioner's patent and providing him with a royalty-bearing license until the April 14, 1976, expiration date of his patent in lieu of injunctive relief is manifestly right. There is no conflict of decisions. There is no unsettled question of Federal law or any constitutional issue raised by the petition. No question of public importance is involved. There has been no departure from the accepted and usual course of judicial proceedings. In short, there is no special or important reason for granting a writ of certiorari in this case.

Petitioner, like many litigants, believes that he should have been compensated more handsomely than he was. His contentions were carefully considered by a fully qualified

Special Master, an experienced District Court, and a competent Court of Appeals. No further review of his contentions should be undertaken by this Court.

Opinions Below

The opinion of the Court of Appeals for the Second Circuit is reported at 492 F. 2d 1317. That opinion is printed in petitioner's Appendix. Two opinions of the District Court, which are relevant here, are not reported. Neither is printed in petitioner's Appendix. Both appear as an Appendix to this brief.

Questions Presented

Petitioner's three "Questions Presented" do not state accurately the issues which petitioner would bring before this Court on certiorari.

The sole questions presented by this petition are:

> (1) Whether or not petitioner was adequately compensated, on the basis of established doctrines relating to reasonable royalty determinations, for infringement of his patent;
>
> (2) Whether or not denying petitioner injunctive relief and assuring him of royalty income for the future was, in the particular circumstances of this case, a sound exercise of equitable jurisdiction.

The ultimate issue is whether or not petitioner is entitled in this Court to another hearing with respect to the amount and the nature of the relief awarded to him because of infringement of his patent by respondents. But, as stated in *Magnum Co.* v. *Coty*, 262 U. S. 159, 163 (1923):

> "The jurisdiction [to bring up cases by certiorari] was not conferred upon this Court merely to give the defeated party in the Circuit Court of Appeals another hearing."

Constitution and Statutes

Article 1, Section 8, Clause 8, and Amendment V, of the Constitution cited in the petition at page 3, have no application here.

On the question raised with respect to injunctive relief, the statutory provision, not referred to by petitioner, is 35 U. S. C. § 283:

> "The several Courts having jurisdiction of cases under this title *may* grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by the patent, on such terms as the Court deems reasonable." (Emphasis added.)

On the question raised with respect to the amount of damages, 35 U. S. C. § 102, quoted by petitioner, is not involved.

Statement of the Case

In this action for infringement of Foster patent No. 2,882,384, entitled "Welding System," Foster was awarded $344,000 in damages, and, in lieu of injunctive relief against them, respondents were granted a four year royalty-bearing license.

The Foster patent in suit, adjudicated to be valid and infringed by defendants-respondents,* relates to electrical welding of tubes and pipes. Tubes and pipes have been fabricated for many years by forming a flat strip of metal into a tubular shape and welding the edges together continuously in a longitudinal direction. This is, very broadly speaking,

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* Defense of the action has been conducted by American Machine & Foundry Company (now AMF Incorporated), the real party in interest, as a result of its acquisition of defendants Magnetic Heating Corporation and Thermatool Corporation. Respondents are referred to herein collectively as AMF (which includes AMF-Thermatool, Inc., a wholly-owned subsidiary of AMF) or as Thermatool.

the field of engineering to which this case relates. The Foster patent describes an improvement in low frequency electrical welding, one of several highly competitive systems for longitudinal welding of pipes and tubes. The key feature of the patent is the use of electromagnets, positioned in the vicinity of the welding zone, to control the path of the welding current (492 F. 2d 1319). Foster's electromagnets have never been used in low frequency electrical welding systems (492 F. 2d 1323). In fact, Foster has never manufactured welding equipment of any kind, including the equipment shown and described in his patent, and, until final judgment was entered in this case, has never had any licensees under his patent.

AMF has never manufactured or sold any low frequency electrical resistance welding systems of the kind described in the Foster patent (492 F. 2d 1320). Its adjudicated infringing activities have consisted of the manufacture and sale of equipment for high frequency electrical contact resistance welding of pipe and tube. This equipment was developed independently by AMF, before Foster's patent had issued and before AMF and its predecessors had even heard about Foster or his prospective patent rights. "Impeders," held in the adjudication on the merits of Foster's patent infringement action to correspond in function to the electromagnets of Foster's patent, are used in some, but not all, of AMF's high frequency contact resistance longitudinal welding equipments. Only those AMF contact resistance welding equipments which include impeders, and the use of such equipments for welding pipe and tube, constitute infringement of Foster's patent (492 F. 2d. 1320).

Petitioner's suit against respondents was commenced on April 14, 1965. On August 23, 1968, the District Court (Palmieri, J.) entered Findings of Fact and Conclusions of Law in favor of Foster on the issues of patent validity and

infringement (9a-16a,* 297 F. Supp. 512). The Court of Appeals for the Second Circuit affirmed *per curiam* (17a-18a, 410 F. 2d 12), and this Court denied certiorari (19a, 396 U. S. 829). The District Court referred the case to a Special Master (Dana Raymond, Esq., a partner in a prominent New York law firm specializing in patent matters) "to take and report account of the damages sustained by plaintiff by reason of said infringement." The accounting proceeded before the Special Master for a period of approximately forty months. Twelve hearings were held, over three hundred thousand pages of documents were produced by AMF, and testimony of ten different witnesses was heard by the Special Master. The Special Master submitted his Final Report, including extensive and detailed separate findings of fact (28a-117a), to District Judge Palmieri on September 22, 1972.

After considering extensive written submissions, the District Court heard oral argument and delivered a tentative opinion (App. 4b-18b) from the bench, in which he confirmed in all respects the Special Master's Report.

On February 8, 1973 the District Court, after "[c]onsideration of the briefs submitted [after the December 20 hearing] by the parties," decided that the supplemental briefs did not alter the Court's tentative opinion insofar as it concerned the Special Master's Report (Pet. 30). Judge Palmieri then entered Final Judgment After Accounting (Pet. 34-37).

On February 21, 1974, the United States Court of Appeals for the Second Circuit concluded, in a careful opinion, that Judge Palmieri and the Special Master were correct.

In initially fixing petitioner's award of damages, the Special Master (65a) applied the willing licensor-willing

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* In this brief, citations to pages followed by an "a" refer to the Joint Appendix in the Court of Appeals; citations to "Pet." followed by pages refer to Foster's petition. The Appendix to this brief is cited as "App."

licensee approach to hypothetical negotiations, presumed to have been conducted in 1959-1961 between Foster, as a willing licensor, and AMF, as "a willing licensee who would respect the Foster patent." Based on this approach and analysis, fully developed and sanctioned in *Georgia-Pacific Corp.* v. *U. S. Plywood-Champion Papers Inc.*, 446 F. 2d 295 (2 Cir. 1971), cert. denied 404 U. S. 870 (1971), the Special Master concluded that the "parties would have agreed upon a royalty measured by the output power of Thermatool's equipment adapted for use of the Foster impeder process" of $20 per kilowatt of rated output power of Thermatool's welding equipment, "such royalty to be paid for a license to Thermatool to continue its manufacture and sale of the equipment and for a license to Thermatool's customers to use the equipment" (66a). The District Court agreed. So did the Court of Appeals.

Petitioner, relying on his *ipse dixit* that the decision below represents an "usurpation of power by one of the most prestigious courts of appeals of the land" (Pet. 13), does not even attempt to face up to the controlling facts on which the damage award based upon a reasonable royalty was solidly founded. These facts, established by competent evidence, show that the award based on $20 per kilowatt, which was characterized by the Master as "the utmost that can fairly be awarded" (69a) is, if anything, overly generous.* The cardinal facts found by and the rationale adopted by the Master, endorsed by the District Court, and affirmed by the Court of Appeals, included (App. 7b-8b):

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* Petitioner seeks a royalty of $52,000,000 from AMF's sale of 77 equipments, for which AMF received total revenues of $8,622,272. This suggested recovery, on a running royalty or throughput basis, is more than six times AMF's gross receipts on these equipments, the major and most expensive part of each of which is a high frequency power generator to which Foster contributed nothing.

"Two factors operate to limit plaintiff's damages:

> "(1) Pipe and tubing manufacturers customarily do not pay running royalties to the owners of welding process patents; and
>
> "(2) Plaintiff's patent represents a relatively small portion of the overall commercial value of Thermatool's high frequency welding system.
>
> "Since running royalties are not customary in the pipe and tubing industry, it is unlikely that any producer would have been willing to pay such royalties for the use of equipment that employed plaintiff's impeder.
>
> "In fact, as the Special Master observed, if a running royalty were forced on the pipe and tubing manufacturers they probably would have sought some other method of production that did not infringe on plaintiff's patent.
>
> "The Special Master concluded that plaintiff's impeder [the *sine qua non* of the Foster patent and of AMF's infringement] had a relatively small effect on the commercial value of defendants' high frequency welding system and that conclusion is supported by the following:
>
> > "First, new and improved systems have come into use that do not employ plaintiff's impeder;
> >
> > "Secondly, plaintiff's impeder is a supplement to Thermatool's high frequency welding system, not vice-versa; and
> >
> > "Thirdly, the principal influence on the commercial value of defendants' high frequency welding system has been the engineering advances built into the equipment by defendants themselves."

In addition, the Courts below pointed out that Foster had never manufactured, or had manufactured for him, any of the equipment described in his patent, and that he had been unsuccessful in seeking licenses under it. In these

circumstances, injunctive relief was denied and a royalty-bearing license to AMF was included as part of the relief granted in the final judgment.

Reasons For Denying the Writ

1. Injunctive Relief Was Properly Denied to Petitioner

The first of petitioner's "Questions Presented" suggests that the Courts below did not have power to deny injunctive relief to petitioner or to include, in fashioning the relief granted to petitioner, a royalty-bearing license under petitioner's patent. Petitioner's suggestions are without merit.

The statutory provision relating to injunctions in patent infringement suits is 35 U. S. C. § 283. The text of the statute is cast in permissive, rather than mandatory, terms:

> "The several Courts having jurisdiction of cases under this title *may* grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the Court deems reasonable." (Emphasis added)

Addressing itself to the question of injunctive relief, the very first thing that the Court of Appeals said was (492 F. 2d 1324):

> "An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances. 35 U. S. C. § 283."

The Court then went on to hold, in the particular circumstances of the present case, that an injunction was not warranted.

The decision below denying injunctive relief was consistent with both the statutory language and with judicial

precedent. It has been long established that the issuance of an injunction in a patent infringement action decided favorably to plaintiff is not a matter of right but, as in the case of injunctions generally, is within the sound equitable discretion of the Court.

Thus, in *Nerney* v. *New York, N. H. & H. R. Co.*, 83 F. 2d 409, 410-411 (2 Cir. 1936), the Court of Appeals for the Second Circuit stated:

> "In *Di Giovanni* v. *Camden Fire Ins. Ass'n*, 296 U. S. 64, 71, 56 S. Ct. 1, 80 L. Ed. [47], the Court pointed out that a remedy in equity may be denied where it would inconvenience the defendant beyond the compensating convenience to the plaintiff. Cf. *Seaboard Air Line R. Co.* v. *Atlanta, B. & C. R. Co.*, 35 F. (2d), 609 (C. C. A. 5). An injunction in a patent case is not always granted as a matter of course, and the balance of convenience may dictate its denial. . . . Where it appears that a much greater injury will be done to the infringer than a benefit to the patentee, the Court may, within its equity power, grant an accounting only and deny injunctive relief. *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F. (2d) 734 (C. C. A. 2); *McCrary* v. *Pennsylvania Canal Co.*, 5 F. 367 (C. C. E. D. Pa.). And where, as in *Hoe* v. *Boston Daily Advertising Corporation*, 14 F. 914 (C. C. Mass.), it is recognized that the only real advantage to a plaintiff in granting the injunction would be to strengthen its position in negotiating a settlement, an injunction should not issue."

Other illustrative authorities in which injunctions have been denied in patent infringement actions are *City of Milwaukee* v. *Activated Sludge*, 69 F. 2d 577 (7 Cir. 1934), cert. denied 293 U. S. 576 (1934); *Electric Smelting & Aluminum Co.* v. *Carborundum Co.*, 189 Fed. 710 (W. D. Pa. 1900), reversed on other grounds, 203 Fed. 976 (3 Cir. 1913), cert. denied 231 U. S. 754 (1913); *Hoe* v. *Boston Daily Advertiser Corp'n.*, 14 Fed. 914 (D. Mass. 1883);

McCreary v. *Pennsylvania Canal Co.*, 5 Fed. 367 (E. D. Pa. 1880), affirmed 141 U. S. 459 (1891); *Dorsey Harvester Revolving Rake Co.* v. *Marsh*, 7 Fed. Cas. 939, No. 4,014 (E. D. Pa. 1873).

District Judge Palmieri on September 10, 1968, after hearing counsel on the question of whether or not an injunction should issue in connection with his adjudication on the merits, concluded that (App. 2b):

> "it would be unwise and improper to afford the plaintiff injunctive relief.
>
> "The balance of equities weighs very heavily in favor of the defendant in the light of the fact that the defendant is engaged in manufacturing a product and the plaintiff is not engaged in manufacturing any product. The grant of injunctive relief would constitute, in my opinion, an irreparable hardship to the defendant without any concomitant or justifiable benefit to the plaintiff who is seeking damages, and who is not seeking to protect a going business or the merchandising of a product."

In December, 1972, Judge Palmieri again considered the question of injunctive relief and concluded that none should be granted but, instead, that future sales should be accounted for by virtue of a judgment "consonant with the notion of a compulsory licensing agreement" (App. 14b). The Final Judgment After Accounting (Pet. 36-37) contained such provisions in Paragraphs 10, 11 and 12.

The Court of Appeals approved this result, stating (492 F. 2d 1324):

> "[an injunction] is not intended as a club to be wielded by a patentee to enhance his negotiating stance. See *Hoe* v. *Boston Daily Advertiser Corp.*, 14 F. 914 (C. C. Mass. 1883). Here, as the District Court noted, the appellee manufactures a product; the appellant does not. In the assessment of relative

> equities, the Court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable. *Nerney* v. *New York, N. H. & H. R. Co.*, 83 F. 2d 409, 410-411 (2 Cir. 1936); *American Safety Device Co.* v. *Kurland Chemical Co.*, 68 F. 2d 734 (2 Cir. 1934)."

The only authority relied on by petitioner in support of his contention that denial of injunctive relief is "in serious conflict with prior decisions of this Supreme Court and is contrary to the Constitution and the repeated expressions of Congress" (Pet. 8) is the *Paper Bag Patent Case*, 210 U. S. 405 (1908). This case does not support the conclusion which petitioner would draw from it. In the *Paper Bag Patent Case*, the patentee and one infringer were competitors in the marketplace. This Court decided, on the specific facts of that case, that the patentee's non-use of the patented invention served a legitimate business purpose which did not warrant depriving the patentee of injunctive relief (210 U. S. 428-429). The Court made it plain that its decision was limited to the specific facts before it, and it did not decide whether or not there were other situations in which "a court of equity might be justified in withholding relief by injunction" (210 U. S. 430).

The decisions cited *supra* make it plain that authorities, both before and since the *Paper Bag Patent Case*, have sanctioned denial of injunctive relief in appropriate factual contexts. The present case unquestionably falls into this category.

2. Providing Petitioner with Future Royalty Income by Granting a License to AMF Was an Appropriate Exercise of Equity Jurisdiction

The Foster patent's welding system has never been commercialized by Foster. He has never manufactured any welding equipment described in his patent, and his

own attempts to license others were fruitless. His first income from his patent and his first prospect for continuing income were created by the judgment to which the petition is addressed. It is against this background that the "compulsory license" question must be appraised.

Apposite to this aspect of the judgment are the remarks of the Court of Appeals for the Second Circuit in *Royal-McBee Corporation* v. *Smith-Corona Marchant, Inc.*, 295 F. 2d 1 (2 Cir. 1961). In approving denial of injunctive relief "upon the payment of a fair royalty for continued use of the device during the relatively short period remaining of the life of the patent," the Court stated

> "We find this flexible approach towards a difficult problem of balancing equities in patent litigation most desirable, and we think the remedy was fully warranted by the facts of this case." (295 F. 2d 6)

In fashioning and approving a decree which provided petitioner with future royalty income and provided respondents with a license to continue their commercial activities, the Courts below were doing nothing more than exercising the historical and salutary powers of courts of equity. As this Court pointed out in *Hecht Co.* v. *Bowles*, 321 U. S. 321, 329-330 (1944):

> "We are dealing here with the requirements of equity practice with a background of several hundred years of history. Only the other day we stated that 'An appeal to the equity jurisdiction conferred on federal district courts is an appeal to the sound discretion which guides the determinations of courts of equity.' *Meredith* v. *Winter Haven*, 320 U. S. 228, 235. The historic injunctive process was designed to deter, not to punish. The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it. The qualities of mercy

> and practicality have made equity the instrument for nice adjustment and reconciliation between the public interest and private needs as well as between competing private claims."

The provisions relating to injunctive relief and to future royalty payments in the Final Judgment After Accounting are equitable, just, and reasonable. An injunction would benefit petitioner nothing; AMF's continued manufacture and sale cannot make any inroads into petitioner's nonexistent market. The Court of Appeals pointed out (492 F. 2d 1324) that the District Court, by including these provisions in its judgment,

> "avoided ordering a cessation of business to the benefit of neither party by compensating appellant in the form of a compulsory license with royalties. This Court has approved such a 'flexible approach' in patent litigation. *Royal-McBee Corp.* v. *Smith-Corona Marchant, Inc.*, 295 F. 2d 1, 6 (2 Cir. 1961). Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief."

The provisions of the final judgment providing that petitioner be compensated in the future at the rate judicially approved for the past are clearly an advantage, rather than a disadvantage, to petitioner. If AMF or its assignees do not continue to pay as provided in the judgment, petitioner has no other source of royalty income or prospective source of income. And if AMF does not comply with the judgment, petitioner has the peremptory remedy of contempt available to him, more effective and expeditious from his standpoint than a possible suit for breach of any future license agreement which might be entered into between petitioner and AMF.

The Courts below properly exercised their broad discretion as courts of equity in refusing injunctive relief and in providing petitioner with future royalty income. Petitioner

has advanced no persuasive reason why this exercise of sound and informed equitable jurisdiction should be reviewed by this Court.

3. The Lower Courts Gave Proper Weight to What Constitutes Infringing Use of Foster's Process and Apparatus Claims in Fixing and Awarding a Reasonable Royalty

Petitioner's basic position appears to be that the Courts below did not properly compensate him for the infringing use of his invention because they ignored that the Foster patent contained "use" as well as "apparatus" claims (Pet. 10-11). This position is unfounded. The Special Master, the District Court and the Court of Appeals all considered and gave weight to the fact that the Foster patent contained use (i.e., process or method) claims as well as apparatus claims (40a, 53a, 57a-58a, 64a, 66a). And, in making his award on a dollar-per-kilowatt basis, the Special Master expressly rejected AMF's fundamental argument that Foster's recovery should be limited to a specific portion of AMF's welding apparatus (63a-64a).*

Petitioner's second question states that the reasonable royalty awarded below was "based on the sale of a part only of a piece of *unpatented* apparatus and technology, and in substitution for the statutory mandate (35 U. S. C. § 284) of at least 'a reasonable royalty *for the use made of the invention*' as defined by the *patented* process claims" (Pet. 2) (emphasis in original). The reference to the award below being based on a part only of a piece of *unpatented* apparatus, an oft-repeated contention by petitioner (Pet. 6, 10, 12) is incomprehensible, at best, or mis-

* AMF contended unsuccessfully that royalties should be based on the sales price of the portion of its infringing equipment which contained the impeder, i.e., the weld head, which is a small part of the welding system sold by AMF. Application of this criterion would have resulted in damages in the order of $10,500. AMF did not press this point in the Court of Appeals.

leading, at worst. The Foster patent includes apparatus claims and also process or method claims. Both were fully taken into account below in fixing the damages awarded to petitioner. The royalty awarded below was based on a reasonable royalty determination which took into account the apparatus claims of Foster's patent, the process claims of Foster's patent, and the activities of AMF's customers in producing tube and pipe by the use of infringing equipment.

Petitioner strains to make much of the conceded facts that his patent has been held valid and infringed and that it includes "use" or method claims. The pertinent authorities make plain, however, that regardless of the broad language of a patentee's claim, his recovery must be limited to his specific contribution to the art. Illustrative are *Cincinnati Car Co.* v. *New York Rapid Transit Corp.*, 66 F. 2d 592 (2 Cir. 1933) and *Egry Register Co.* v. *Standard Register Co.*, 23 F. 2d 438, 440-441 (6 Cir. 1928).

With respect to both the apparatus claims and the method claims, it is clear that Foster's patent contributed to the prior art only the use of an impeder, and that an impeder had to be present to infringe either type of claims.

Petitioner's contention that his improvement invention is more than the use of an impeder in an otherwise old process is destroyed by AMF's prior art Park 2,794,108 patent. With respect to this patent, which antedates Foster, the Special Master found (39a):

> "Before the issuance of the Foster patent, Thermatool became the owner of Park patent No. 2,794,108, filed August 31, 1953, and issued May 28, 1957. The Park patent disclosed and claimed the process and system for high frequency contact resistance welding of longitudinal seamed tubing for which all of Thermatool's welding systems involved in this accounting have been designed."

Except for the use of an impeder, the entire Thermatool high frequency welding system, including the step of forming the sheet metal into tubing, is described in the Park patent. Foster's patented improvement in pipe and tube welding, to the extent that it has been used by AMF and its customers, comes down to the use of an impeder (492 F. 2d 1323).

Because petitioner has never manufactured or licensed his patented invention, or otherwise suffered damage to any business interest, his recovery must be "adequate to compensate for the infringement but in no event less than a reasonable royalty for the use made of the invention by the infringer" (35 U. S. C. § 284). The "reasonable royalty" concept was adopted by the Courts years ago in order to fix damages in the absence of an established royalty or to compensate a patentee unable to demonstrate any actual damage. *Russell Box Co.* v. *Grant Paper Box Co.*, 203 F. 2d 177 (1 Cir. 1953), cert. denied 346 U. S. 821 (1953); *Rockwood* v. *General Fire Extinguisher Co.*, 37 F. 2d 62, 66 (2 Cir. 1930). The amount of a reasonable royalty for the use of a patented invention does not change with the identity of the one who pays it—i.e., whether it be the manufacturer and seller of the equipment or the user of it.

In developing the reasonable royalty concept, the Courts have considered the factual setting of each individual case. In almost every case the reasonable royalty determination has been arrived at on the basis of a combination of factors, rather than on the basis of any single factor. In making this determination the Courts below adopted as their benchmark the willing licensor-willing licensee doctrine.

Among the factors taken into account below in applying the willing licensor-willing licensee doctrine, which by themselves proscribe any award of damages based on a running royalty measured by production, were that:

1. Producers of pipe and tubing did not pay running royalties to holders of welding process patents and therefore "Thermatool could not have sold its welding equipment in competition with other electric welding systems that were available to its customers if such a use royalty had been demanded" (66a); and

2. The portion of the commercial value of Thermatool's high frequency contact resistance welding system with impeders which is attributable to Foster's patent was relatively small (58a).

The Special Master properly concluded that there was no evidence upon which he could base a conclusion that the producers of pipe and tube would be willing to pay any "running royalty for use of the Foster impeder process" (59a-60a). He recognized that if a running royalty were forced on the pipe and tube mill operators "[be it] 3% of their production, or any fraction thereof" (60a), such operators would likely shift to a competing and non-infringing system that did not require payment of such royalties (66a).

In these circumstances, the Courts below were clearly correct in not basing a royalty on the volume of welded pipe and tube produced by mill operators, and in assessing damages instead upon "hypothetical negotiations in 1959-1961 between Foster, as a willing licensor, and Thermatool, as a willing licensee who would respect the Foster patent" (65a). As pointed out by the Court of Appeals (492 F. 2d 1321-1322):

> "the Master related the 'reasonable royalty' theory to hypothetical negotiations between Foster and Thermatool, rather than between Foster and the 69 mill operators. He also disposed of the theory that such negotiations with the mill operators would have produced a greater royalty. Support for such theory

would have to be found in a history evidencing willingness by the mill operators to pay a running, or throughput royalty, based on their production, for rights to the welding process. The Master found that the evidence was to the contrary, a finding confirmed by the District Court."

* * *

"If we treat the mill operator as the infringer, there is no substantial evidence that he would have agreed to any royalty for the use of the infringing impeder at the 'suppositious meeting.' * * * '. . . Since running royalties are not customary in the pipe and tubing industry, it is unlikely that any producer would have been willing to pay such royalties for the use of equipment that employed plaintiff's impeder.' We agree. The question was what a reasonable man would be willing to pay for the use of a part of the whole process. *Merrell Soule Co.* v. *Powdered Milk Co. of America,* 7 F. 2d 297, 299 (2 Cir. 1925).

* * *

"In practical terms, Foster had a patent which obviously required the manufacture of a piece of equipment to make it usable. Foster does not have any licensee who manufactures his patented apparatus or uses his patented process. The parameters of his patent embraced a component in a larger system which utilized his process. He did not have equipment to sell directly to the mill operators. He was hardly in a position to work out an agreement directly with the mill operators. His theoretical licensee, in the formulation of a license agreement, was the manufacturer of the welding equipment who could use his process. And it is precisely in hypothetical negotiation with that prospective licensee that the District Court fixed the reasonable royalty."

The decision below is soundly based on the facts and the law. Petitioner's contention that the analysis made below is wrong and that the Courts below should have awarded

him a throughput or running royalty of $52,000,000 does not warrant consideration by this Court.

4. Petitioner's Contentions with Respect to AMF's Inducement of Infringement Are Unsound

Petitioner contends that AMF's "inducement" of infringement under 35 U. S. C. § 271(b) somehow entitles him to ignore the usual tests for recovery and to qualify him for the extraordinary sum he seeks here based on a throughput or running royalty (Pet. 12-13). This contention is without support in either reason or authority.

In advancing this unfounded theory, petitioner ignores that the reasonable royalty awarded by the Courts below, which compensates him for AMF's manufacture and sale and its customers' use of the infringing equipments (64a, 66a), necessarily includes compensation for direct infringement of both the apparatus claims and the process claims of the Foster patent. It is well-settled doctrine that compensation for direct infringement on a "reasonable royalty" basis makes a patentee whole and constitutes full and complete recovery. This principle applies to petitioner. Petitioner has cited no authority, and we know of none, which suggests that in addition to compensating him for direct infringement, AMF should pay additionally for "contributions to" or "inducements of" this very same direct infringement.

The authorities undercut any basis for petitioner's contentions. A patentee who has been fully compensated for direct infringement cannot collect anything additional for contributory infringement. *Aro Mfg. Co.* v. *Convertible Top Co.*, 377 U. S. 476, 512 (1964). There is no basis in logic or in policy for the rule to be any different with respect to inducement. *Nordberg Mfg. Co.* v. *Jackson Vibrators, Inc.*, 153 USPQ 777, 783* (N. D. Ill. 1967), reversed on other grounds, 393 F. 2d 192 (7 Cir. 1968).

* Not reported in F. Supp.

The conclusions of the lower Courts based on these controlling legal doctrines are in accord with the business realities of this industry: when a manufacturer such as AMF sells welding equipment, it passes on to its customers the right to use the equipment for its intended use without the payment of any throughput or other additional royalty (66a). The reasonable royalty award below took fully into account this important factual background in considering the extent of AMF's total liability, as a manufacturer of infringing equipment as well as an inducer, in awarding damages to Foster.

5. There Is No Conflict of Decisions, and No Question of Public Importance Is Presented

No other suit has been brought on the Foster patent. Thus, there is no decision on the same matter in conflict with the decision of the Court of Appeals for the Second Circuit here sought to be reviewed.

This case is nothing more than a private patent controversy. The Foster welding patent is plainly not a patent of unusual public importance. Applicable here is the rule stated in *Keller* v. *Adams-Campbell Co.*, 264 U. S. 314, 319 (1924):

> "Such an ordinary patent case . . . this Court will not bring here by certiorari unless it be necessary to reconcile decisions of the Circuit Courts of Appeal on the same patent."

The record here does not present any substantial question of Federal law requiring resolution by this Court. The monetary award to Foster of $344,000 and the provision in the judgment of a license under the Foster patent* in lieu of injunctive relief are soundly based on the particular facts of this case and are in accord with the decisions of this Court.

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* Foster's patent expires on April 14, 1976.

Conclusion

The petition should be denied.

Respectfully submitted,

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June 17, 1974

APPENDIX

District Court Opinion, September 10, 1968

[169a] UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

65 Civil 1114

JULIUS E. FOSTER,

Plaintiff,

vs.

MAGNETIC HEATING CORPORATION, THERMATOOL CORPORATION, DAVID G. OSTERER, HERMAN C. MORRIS, AMERICAN MACHINE & FOUNDRY COMPANY,

Defendants.

Before: HON. EDMUND L. PALMIERI, District Judge.

New York, September 10, 1968;
4.45 o'clock p.m.

APPEARANCES:

ALEXANDER KAHAN, ESQ., Attorney for Plaintiff.
CHARLES H. WALKER, ESQ., Attorney for Defendants.

and

WILLIAM K. KERR, ESQ. and
HERBERT F. SCHWARTZ, ESQ., of Counsel.

[170a] The Court: After discussing the form of the judgment with counsel, I have concluded that notwithstanding the statement I made at the conclusion of my

opinion of August 23, 1968, that it would be unwise and improper to afford the plaintiff injunctive relief.

The balance of equities weighs very heavily in favor of the defendant in the light of the fact that the defendant is engaged in manufacturing a product and the plaintiff is not engaged in manufacturing any product. The grant of injunctive relief would constitute, in my opinion, an irreparable hardship to the defendant without any concomitant or justifiable benefit to the plaintiff who is seeking damages, and who is not seeking to protect a going business or the merchandising of a product.

Under the circumstances, therefore, this judgment, which I have just signed, provides that no injunction shall issue.

I have also named Dana Raymond, Esq., of 80 Broad Street, New York City, as Special Master to take and report an account of damages sustained by the plaintiff.

[171a] Subject to Mr. Raymond's examination of the papers and determining whether or not there is any conflict of interest, he has indicated his willingness to serve, and counsel present have indicated no objection to his designation.

Lastly, and perhaps most importantly, the plaintiff has sought to be protected against any dilatoriness on the part of the defendants in prosecuting the appeal. The defendants have indicated that they will definitely prosecute an appeal. The plaintiff is interested in seeing to it that this appeal be prosecuted according to the time lapses provided by the rules and without any extensions of time and without any dilatoriness.

I would like you, Mr. Walker, to give me on the record now the assurances you gave me a few minutes ago so that

the plaintiff can be assured there will be no dilatoriness in prosecuting the appeal.

Mr. Walker: Yes, your Honor, we will gladly undertake to take all of the steps necessary to carry out the appellate procedure within the times allowed by the rules for doing these things, [172a] and with safe margin as a protection against the necessity for asking for any extensions of time, which we will seek only in the event of some completely unanticipated and unavoidable emergency.

The Court: Is that agreeable, Mr. Kahan?

Mr. Kahan: That is agreeable, your Honor, with one further observation, that either the Court or I can make on the record, that the plaintiff has consented without question to the denial of the injunction. The plaintiff will not argue for the injunction in this proceeding, nor for a supersedeas bond.

The Court: You did not argue for it this afternoon, but you applied for it through your papers earlier. As of now, you have not objected to the defendants' request that there be no injunctive relief, nor have you objected to my statement that injunctive relief was not justified.

Mr. Kahan: I was ready to take the first part of your statement, your Honor, though I will not take the second.

The Court: Don't let me put words [173a] in your mouth. You have acquiesced in Mr. Walker's request that the judgment contain no provisions for injunctive relief, and we will leave it at that.

Mr. Kahan: That's right.

The Court: Gentlemen, here is the judgment which I have signed. As soon as you have conformed your copies, please give it to my clerk so it can be filed without delay.

Thank you, gentlemen.

District Court Opinion, December 20, 1972

[174a] UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

65 Civil 1114

JULIUS E. FOSTER,

Plaintiff,

vs.

MAGNETIC HEATING CORPORATION, et al.,

Defendants.

Before: HON. EDMUND L. PALMIERI, District Judge

New York, December 20, 1972
Room 2804—5:00 p.m.

APPEARANCES:

ROBERT RINES, ESQ.,
FRANKLIN R. WEISSBERG, ESQ., and
PAUL J. FOLEY, ESQ., Attorneys for Plaintiff

FISH & NEAVE, ESQS., Attorneys for Defendants,
WILLIAM K. KERR, ESQ.,
HERBERT F. SCHWARTZ, ESQ., and
RAYMOND C. MARIER, ESQ., of Counsel

ROGERS, HOGE & HILLS, ESQS., Attorneys for Defendants,
FRANK H. GORDON, ESQ., of Counsel

[175a] The Court: The stenographer is present and I will summarize very briefly what occurred this afternoon.

District Court Opinion, December 20, 1972

The hearing began shortly after 3 o'clock and it is now 5 minutes after 5 and I heard arguments from Mr. Robert Rines on behalf of plaintiff and from Mr. William K. Kerr on behalf of the defendants.

At the conclusion of argument I requested the Special Master to submit his bill for services which he did and I asked him whether he would represent that if he were sworn he would testify that the time sheets attached to his bill and which have been marked Court Exhibit 1 of this date in evidence, were kept in the regular course of business and whether they would be true and correct.

He said he would so swear.

This bill representing 624 hours of professional services was submitted as a bill for $50,000; the disbursements amounting to $381.11. The Special Master represented that his fee in his office to clients is normally based on $100 an hour and that this bill has been substantially reduced below that figure. The Special Master also represented that the prolonged and extensive discovery undertaken in this case was due in substantial part to the plaintiff's actions and he declined to apportion his hours with respect to any causative factors attributable to one party or the [176a] other and I am left with the duty of assessing the cost of this reference.

I will assess the cost of the reference to the extent of $40,381.11 as costs to the defendants and I will assess $10,000 of costs as to the plaintiff.

The plaintiff has made charges against the Special Master and against the defendants. I find these charges unpersuasive and insufficient to warrant either the disqualification of the Special Master or the setting aside of

his report. I consider them completely unpersuasive and insufficient to warrant imposition of sanctions on the defendants.

The claim of the plaintiff for the imposition of sanctions was made not once but many times during the proceedings before the Special Master and the Special Master has reported that he has declined to impose sanctions on the defendants. I agree with that disposition of the matter.

I decline to set aside his views with regard to that or with regard to his alleged disqualification. Plaintiff has been careful to explicitly avoid any charge of prejudice or bias on the part of the Special Master. I consider that the charges made by the plaintiff were made tardily and after the plaintiff knew or should have known [177a] of the alleged indirect connection with some background of this patent and I do not believe that his awaiting the result of the special reference and his making the charges now before me and tardily before the Special Master warrant taking of any action in that respect.

With respect to the essential solution reached by the Special Master I find that those conclusions were reached carefully and on the basis of valid and binding authority and that his conclusions were entirely reasonable in the premises.

This was not an easy case, reaching what should be a reasonable royalty when the plaintiff is an inventor not engaged in any business or commercial activity; it is a very difficult task.

The damages here could not be measured by any injury to any business interests of the plaintiff. Additionally, since no license was ever granted under the patent, there

was no previously negotiated royalty that could serve as a standard in the case and so the Special Master was left and indeed the Court is left with the crucial question as to what should be a reasonable royalty in the premises.

I will not review the background of the case to any extent; that has been done in the Special Master's [178a] report.

My findings and decision with respect to the validity and infringement is reported in 297 F. Supp. 512 and affirmed by the Second Circuit, 410 F. 2d 12.

I reached no conclusions with respect to the commercial value of the plaintiff's patent and I made no suggestions with respect to what a reasonable royalty should be. I left this to the labors of the Special Master and I find that his conclusions are entirely warranted.

The Special Master's determination of a reasonable royalty is based upon principles set down in Georgia-Pacific Corporation against U. S. Plywood-Champion Papers, a decision of the Second Circuit of very recent vintage, reported in 446 F. 2d 294, Second Circuit 1971; certiorari denied, 404 U. S. 870.

In order to determine what a reasonable royalty should be in this case, it was necessary to consider the probable outcome of hypothetical negotiations between plaintiff inventor and the defendant infringers a short time after the issuance of the plaintiff's patent. In this regard, it was assumed and properly so, that the plaintiff would have been a willing licensor and the defendants willing licensees.

[179a] Two factors operate to limit plaintiff's damages:

(1) Pipe and tubing manufacturers customarily do not pay running royalties to the owners of welding process patents; and

(2) Plaintiff's patent represents a relatively small portion of the overall commercial value of Thermatool's high frequency welding system.

Since running royalties are not customary in the pipe and tubing industry, it is unlikely that any producer would have been willing to pay such royalties for the use of equipment that employed plaintiff's impeder.

In fact, as the Special Master observed, if a running royalty were forced on the pipe and tubing manufacturers they probably would have sought some other method of production that did not infringe on plaintiff's patent.

The Special Master concluded that plaintiff's impeder had a relatively small effect on the commercial value of defendant's high frequency welding system and that conclusion is supported by the following:

. First, new and improved systems have come into use that do not employ plaintiff's impeder;

Secondly, plaintiff's impeder is a supplement to Thermatool's high frequency welding system, not vice-versa; and

[180a] Thirdly, the principal influence on the commercial value of defendants' high frequency welding system has been the engineering advances built into the equipment by defendents themselves.

During the period 1959 through 1961 Thermatool placed a substantial value on its welding technology and

this technology when licensed to its customers was valued at as much as $200 per kilowatt of the rated output power of the generators used.

Starting in 1954 and prior to the issuance of plaintiff's patent, Thermatool included a charge of about $200 per kilowatt of rated output power in determining the selling price for its high frequency generators and related welding equipment. This amount represented compensation for the use of Thermatool's welding technology and for related services.

Later, in 1964, Thermatool entered a license agreement with the Ohio Crankshaft Company which contained a warranty that Thermatool was then collecting a royalty from vendees under the Park and Rudd patents of $200 per kilowatt. The defendants suggested during the course of the proceedings before the Special Master that plaintiff's impeder did not improve the quality of the welding and I believe the Special Master properly rejected such [181a] suggestions. Clearly the findings of fact made by the Court following the trial are res judicata with respect to the subsequent proceedings between the parties. I hasten to add that the commercial value of plaintiff's impeder in relation to the overall commercial value of Thermatool's welding technology was left for the Special Master's determination in the first instance and was not determined by the court during the litigation.

At the time of the trial the only issues before the Court were the validity of plaintiff's patent and whether or not the patent had been infringed. Consequently, there was no evidence of any significance with respect to damages. The resolution of the validity and infringement issues did not depend in any way upon the relationship of the impeder

to the overall commercial value of Thermatool's high frequency welding system.

In any event, the Court did not decide that virtually the entire commercial value of Thermatool's high frequency welding system is attributable to plaintiff's impeder.

The plaintiff's impeder constitutes a minor but significant fraction of the total value of Thermatool's high frequency welding technology. It should be noted that plaintiff's impeder has been used only by Thermatool and [182a] its customers and since 1956 Thermatool has almost invariably equipped its welding systems with impeders if the systems were to be used for the manufacture of longitudinally welded pipe and tubing.

In addition, it has supplied its customers with a large number of replacement impeders.

Thermatool's high frequency welding process has been in commercial use both with and without impeders. However, the Foster impeder process has been used commercially in this country only in conjunction with the Thermatool process.

Other factors have also contributed to the commercial value of the Thermatool high frequency welding system and these include:

> First, the fact that the system operates at a much higher frequency than contemplated in plaintiff's patent; and
>
> Second, the engineering advances incorporated into the system by Thermatool itself.

I reject plaintiff's claim that he is entitled to a 3 per cent running royalty as damages, which would total more

than $52 million. This figure appears to be in excess of Thermatool's revenues received for sale or lease of infringing equipment during the accounting period.

No evidence was introduced showing that producers [183a] of welded pipe and tubing had paid running royalties on production for the use of any welding process. Nor is there any evidence that had they been willing to pay such a royalty it would have been 3 per cent.

Moreover, the plaintiff is not entitled to royalties on systems sold outside the United States. The use of plaintiff's process in a foreign country does not infringe his patent. The fact that the sale of the equipment was consummated in this country is immaterial. What is important is that the systems sold to foreign purchasers were not assembled until the various components reached their ultimate destination. Only when a complete system is assembled can there be infringement.

I reject the plaintiff's claim that he should be entitled to a royalty of $200 per kilowatt on infringing systems used in this country as to which production figures are not available.

Such a demand I consider to be excessive. Such a royalty would equal or exceed the total profit earned by Thermatool on sales of its infringing systems.

And, furthermore, in making this ridiculous demand, plaintiff ignores the fact that the development and marketing of the Thermatool high frequency welding system did not result solely from his own inventive talents.

[184a] I reject the plaintiff's claim that he should be awarded 20 per cent of Thermatool's sales of spare and

replacement parts. There is no persuasive evidence to establish how much profit was earned by Thermatool on such sales. In addition, any royalty on spare and replacement parts would be arbitrary and therefore improper.

Plaintiff's additional claim for $250,000 is likewise without merit. Plaintiff claims that an aggregate of $250,000 was paid to Thermatool by various other firms for licenses under the Rudd patent, a patent which is dominated by plaintiff's patent. The facts do not support this claim.

Reynolds Metals Company paid $50,000 to Thermatool, but not as a royalty. The payment was made as consideration for a release from a sales agency agreement. Bethlehem Steel Corporation was to pay $100,000 for a license to use another Thermatool process that does not involve impeders, but that transaction failed to reach completion. As to the $100,000 payment made by Ohio Crankshaft Company upon execution of a settlement agreement dated February 28, 1964, there is no evidence that such payment had any connection with the Rudd patent.

The Special Master declined to make any findings [185a] with respect to punitive damages on the ground that he had not been instructed to make any. I decline to make any finding with respect to punitive damages other than to say that there isn't evidence to warrant my reaching any such conclusion and I decline explicitly to impose punitive damages upon the defendants.

The Special Master noted in his report that during the accounting defendants presented evidence with dispatch and candor. I accept his conclusion as fully warranted by the evidence.

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I do not accept the defendants' contention that a reasonable royalty should be based on the sales value of the weld head. The selling price of the components that any relation to the overall value of plaintiff's invention. The plaintiff devised a process that produced a higher quality weld than that produced by other methods, and in less time. And thus the value of plaintiff's process should be measured by its contribution to the art of welding and not by the selling price of the components.

I reject the defendants' contention that plaintiff's 1966 settlement offer of $165,000 should set a ceiling on the recovery. The offer was made prior to the plaintiff undertaking the risk and expense of litigation [186a] and, like all settlement negotiations, I think it should be disregarded now that litigation has been undertaken and completed after all these many long, difficult years.

The Special Master found and I agreed the outcome of the hypothetical negotiations would have been as follows:

One, that the parties would have agreed on a royalty based on the output power of infringing welding equipment.

Two, that the parties might have agreed that the plaintiff would share in any running royalties that might be collected. But since no such royalties ever were received by defendants, further discussion of this point is unnecessary.

Three, that the parties would have agreed that no royalty would be payable on sales of welding equipment to foreign users.

Four, that the parties would have agreed that no royalty would be payable with respect to infringing equipment sold

prior to the issuance of plaintiff's patent. Plaintiff benefited from such sales because they established a market for his product prior to the issuance of his patent.

Five, that the parties would have agreed that no royalties would be payable with respect to Thermatool's [187a] sales of spare and replacement parts.

Six, that the parties would have agreed on a royalty at a rate of $20 per kilowatt on all infringing equipment sold for use in the United States after April 14, 1959. This royalty amounts to about 3 per cent of the revenue generated by sales of such equipment. This royalty might appear excessive considering the fact that (a) a large part of the sale price of the welding system was attributable to the high frequency generator, which has nothing to do with plaintiff's patent; and (b) Thermatool had discovered the value of impeders and put them into use before plaintiff's patent was issued. However, it must be kept in mind that welding technology is more important to defendants' business than high frequency generators. It seems logical to conclude that defendants would pay a $20 per kilowatt royalty for the right to continue marketing what had already proven itself to be a successful product.

With respect to future sales I invite the parties to submit a form of judgment consistent with what has already been said in language consonant with the notion of a compulsory licensing agreement.

Mr. Rines has represented to the Court that he [188a] has a contingency fee arrangement of 20 per cent of recovery; Mr. Foley has represented to the Court that he has a separate contingent fee arrangement of 20 per cent of recovery; and Mr. Weissberg, speaking for Mr. Kahan,

has said that an amicable arrangement will be sought for the purpose of paying the fee due to Mr. Kahan.

Mr. Weissberg represented that he expects to receive nothing for his services because of his relationship to Mr. Foster, the inventor.

Accepting this representation at face value, I direct Messrs. Rines, Weissberg, Foley and Kahan to arrive at an amount for the payment of their respective fees which in toto will not exceed 30 per cent of the recovery in this case.

I regard the 20 per cent contingent fee arrangements of Messrs. Rines and Foley to be in excess of what equitable principle should allow and notwithstanding their long and patient and dedicated and indeed aggressive efforts in behalf of the inventor, I think it would not be consonant with my appropriate findings in the case to sign a judgment in which so much of the recovery should be paid out to attorneys for their fees.

I would suggest that a contingent recovery of 15 per cent for each one of Messrs. Rines and Foley would be [189a] sufficient, less whatever amount may be necessary to accommodate the fee of Mr. Kahan.

Mr. Weissberg: Your Honor, I would like to point out to you that the plaintiff in this case in addition to being an inventor is an attorney, a member of this bar for many years.

The Court: He is a patent solicitor.

Mr. Weissberg: I would like to point out I have been a member of the bar for some 15 years and Mr. Foster and

I are well acquainted with the value of attorney's services and fees; that Mr. Rines has been with this case more than five years and that he won a verdict against a claim that the case was nothing more than a nuisance settlement, that the hundreds and hundreds of hours devoted to this case by Messrs. Rines and Foley are self-evident by the fact, your Honor, that the Special Master who has been in only part of this case, has amassed 624 hours and I would suggest to you that on any kind of time basis the value of services of the two attorneys in question would be way up in the hundreds of thousands of dollars and I suggest that you permit Mr. Foster, before you come to any final conclusion with respect to fees, to submit an affidavit giving the Court his views.

The Court: I will not object to his submitting [190a] an affidavit giving his views. In fact, I am giving you the benefit of my views at this time so as to permit you and in fact I invite you and your adversaries to submit any comments or suggestions you may wish which you believe should change any of these and you may do it with respect to fees.

I doubt that I will change my view but I don't want to shut the door. I have previously told you that these views must be deemed to be my tentative decision subject only to whatever modification I may make after considering and studying the submission I asked you to make by January 22, 1973.

My only view is that the hours amassed by the Special Master were amassed because of the undue and unnecessary prolongation of these proceedings by unduly extensive and peripheral discovery in this case and that there has been an unduly aggressive and zealous attempt to enlarge this recovery beyond any possible justification.

I regard the demand for the recovery of $52 million and the suggested recovery of $26 million made in behalf of plaintiff as being utterly unreasonable and excessive. However, I don't want to shut the door to any suggestions that Mr. Foster who I know to be a patent solicitor, may wish to make.

[191a] My direction to these attorneys subject to any changes I may hereafter make will stand. Their total fees may be divided among them but they shall not exceed 30 percent of the recovery. If they are unable to agree to a proper division I will have to make the division myself. I have made a suggestion as to how the division should be made.

I don't think, since the question of future damages will be covered I hope by appropriate language in the proposed judgment consistent with the notion of a compulsory license, I don't think I need to make any special provision with respect to injunctive relief.

The recovery will carry with it a 6 per cent interest charge from the date of the filing of the Special Master's report and 7½ per cent interest charge from the date of the entry of the judgment.

Mr. Weissberg: Would your Honor clarify that, please? Are you saying that there will be no interest payment until the date of the Special Master's report?

The Court: There will be no interest payment until the date of the filing of the Special Master's report.

The clerk just handed the docket sheet which indicates the report of the Special Master with exhibits [192a] to the appendix was filed on September 22, 1972.

There will be no interest payable up to that time and the rate of interest payable after that time will be 6 per cent until the entry of judgment and, at that time, the interest rate will be 7½ per cent.

Off the record.

(Discussion off the record.)

The Court: Gentlemen, I regret this litigation lasted so long. I hope it will come to a conclusion in the near future. I intend to deal with it as expeditiously as possible after the 22nd of January and I appreciate your attending today.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-1744

JULIUS E. FOSTER,

Petitioner,

v.

AMERICAN MACHINE & FOUNDRY CO., *et al.*,

Respondents.

PETITIONER'S REPLY BRIEF

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IN THE

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JULIUS E. FOSTER,

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Respondents.

PETITIONER'S REPLY BRIEF

PETITIONER'S REPLY BRIEF

Respondents' brief attempts to re-cast petitioner's questions in terms of a mere request for a review by this Supreme Court of the amount and nature of relief awarded to him.

Clearly petitioner would not be taking the valuable time of the Supreme Court if this were the case.

Statutory and equitable relief, however, must be within the bounds of statutory and constitutional authority—and it is this marked departure by the Court of Appeals for the Second Circuit from all other law in this country and specifically from the prior holdings of

this Supreme Court which petitioner feels is of great moment and significance, warranting the prompt review by this Court.

RESPONDENT CONFUSES DENIAL OF INJUNCTIVE RELIEF FOR EXISTING INFRINGEMENT, WITH A COMPULSORY LICENSE FOR ALL FUTURE NEW INFRINGEMENTS FOR THE LIFE OF THE PATENT

Nowhere in its brief has respondent cited a single decision of the Supreme Court (or of any other court) contrary to, or modifying the fountain *Paper Bag Patent Case*, 210 U.S. 405 (1908), cited by petitioner (Pet p. 9, 10) establishing that the courts have no statutory or constitutional power to abrogate the "exclusive" future rights in a valid patent (Constitution, Article I, Sec. 8, clause 8) merely because the patentee does not commercially exploit his patent.

Certainly petitioner is not complaining, as respondents would have this Court believe, because the District Court, in balancing equities, decided not to enjoin the continuation of the existing infringement of petitioner's process by respondents' tube-welding mill process users.

In fact, petitioner himself urged the District Court *not* to grant an injunction on existing *infringement* at the time of the appeal in this cause (Resp. Brief, p. 3b).

It is a far cry, however, from declining to grant an injunction on existing infringing activities, to undertaking to order a *compulsory license* for an unlimited number of new future infringements, by any number of future new infringer customers of respondents for the rest of the life of the valid patent, and on terms dictated by the court!

And when it is reflected that respondent AMF has been the sole licensor in this country of this type of tube-welding process in the whole industry, the effect of this compulsory license is to grant to AMF *all the future licensing rights of the Foster patent.* Indeed, from the practical point of view, the courts here have forced petitioner to sell all the rights in his patent to respondents, on terms established by the courts and unacceptable to petitioner, and all because the courts state they want to do equity and give petitioner "half a loaf", where the Constitution tried to assure him of his *full loaf* in a valid and infringed patent.

Thus the cases cited by respondents (Resp. Brief, p. 9-10) dealing with mere denial of injunction are entirely inapposite.* In the *Nerney* case quoted by respondents, indeed, it was only held that

> "the Court may, within its equity power, grant an *accounting only* and deny injunctive relief" (citing the very *American Safety, McCrary* and *Hoe* cases listed by respondents).

An "*accounting only*" is, of course, based upon an *existing* infringement; not a compulsory license for all new infringements by all new future infringers.

This, indeed, used to be the limit on the equitable authority of the Court of Appeals for the Second Circuit and all other courts until the present Foster case.

The compulsory licensing action of the Court of Appeals in this case is in direct conflict with this Supreme Court's pronouncement in the *Paper Bag* case,

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*The very different circumstances of the *Royal-McBee* case are discussed at Pet. p. 9. In *City of Milwaukee,* the community sewage plant would have had to be closed—this again being only an *existing* infringement that was not enjoined.

supra, and all following law in this country, and respondents have utterly failed to show otherwise. See, also, for example, a reiteration by this Supreme Court in *Hartford-Empire Co. v. U.S.*, 323 U.S. 386, 417:

> Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. It has failed to enact these proposals into law. It has also rejected the proposal that a patentee found quilty of violation of the anti-trust laws should be compelled, as a penalty, to license all his future inventions at reasonable royalties . . . ;

p. 432,

> A patent owner is not in the position of a quasi-trustee for the public or under any obligation to see that the public acquires the free right to use the invention. He has no obligation either to use it or to grant its use to others . . . ;

and p. 433,

> Congress has repeatedly been asked, and has refused, to change the statutory policy by imposing a forfeiture or by a provision for compulsory licensing if the patent is not used within a specified time. The governing rule is quoted in *Chapman v. Wintroath*, 252 U.S. 125, at 137:
>
> > A party seeking a right under the patent statutes may avail himself of all their provisions, and the courts may not deny him the benefit of a single one. These are questions not of natural but of purely statutory right. Congress, instead of fixing seventeen, had the power to fix thirty years as the life of a patent. No court can disregard any statutory provisions in respect to these matters on the ground that in its judgment they are unwise or prejudicial to the interests of the public. *United States v. American Bell Telephone Co.*, 167 U.S. 224, 227.

See also *Special Equipment Co. v. Coe*, 324 U.S., 370 at 378:

> "This Court has consistently held that failure of the patentee to make use of a patented invention does not affect the validity of the patent. *Continental Paper Bag Co. v. Eastern Paper Bag Co.* 210 US 405, 52 L ed 1122, 28 S Ct 748; *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 US 24, 34, 67 L ed 516, 518, 43 S Ct 254; *Woodbridge v. United States*, 263 US 50, 55, 68 L ed 159, 162, 44 S Ct 45; *Fox Film Corp. v. Doyal*, 286 US 123, 127, 76 L ed 1010, 1014, 52 S Ct 546; *Hartford-Empire Co. v. United States*, 323 US 386, 433, ante, 322, 372, 65 S Ct 373."

and at 379:

> "Congress has frequently been asked to change the policy of the statutes as interpreted by this Court by imposing a forfeiture or providing for compulsory licensing if the patent is not used within a specified time, but has not done so."

Since the *Special Equipment* case, supra, Congress changed the language of the patent statute more specifically to read (35 U.S.C. Section 154):

> "*Every patent shall contain* a short title of the invention and *a grant to the patentee*, his heirs or assigns, for the term of seventeen years of *the right to exclude others from making using, or selling the invention* throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. July 19, 1952, c. 950 §1, 66 Stat. 804." (emphasis added)

The revisor's notes following this section (USCA) makes it very plain that this is to be the right of every patentee:

> "The wording of the granting clause is changed to *'the right to exclude others* from making, using, or selling', following language used by the Supreme Court, to render the meaning clearer." (emphasis added)

Clearly a serious conflict has been raised with prior decisions of this Supreme Court and with what had been considered to be long-established law in this country, warranting the prompt intervention of this Court.[1]

RESPONDENTS HAVE FAILED TO SHOW ANY PRECEDENT FOR AWARDING ROYALTY ON UNPATENTED ITEMS

On page 15 of respondents' brief, it is made very plain that respondents concur with petitioner that the royalty assessed by the courts in this case was *not* based on the "language of patentee's claim" of the patent.

The statute (35 U.S.C. Sec. 284), however, requires at least "a reasonable royalty for the use made of the invention" defined by the patent claims!

Not a single case cited by respondents supports the action of the courts in the present cause in assessing "a reasonable royalty" predicted upon a different base than that of the patent claims which define the metes and bounds of the patented invention.[2]

---

[1] Even at this writing, the serious effect of the decision in this case is attracting the attention of the industrial and legal communities (Bureau of National Affairs, Patent Trademark and Copyright Journal No. A-6 (181) 6-6-74).

[2] Respondent's brief at page 5, line 4, again lauds the special master as did the district court's judgement (Pet., page 33, bottom), but neither of them deny or apologize for the obvious fact (see Pet., page 5, footnote) that the special master's choice

The argument that mill pipe producers did not customarily pay royalties cannot abrogate a statutory requirement that "the court *shall award* the claimant . . . in no event less than a reasonable royalty for use made of the invention by the infringer . . ."

What statutory or Constitutional power can possibly exist in the courts to ignore the process invention claims of the patent, and redefine a different "invention" base for the royalty required by the statute?

Not a single case cited by respondents supports the awarding of "a reasonable royalty" on unpatented items, as distinguished from the invention delineated in the patent claims--all in direct contravention of the expressed holdings of this Supreme Court in the *Aro* and other cases cited in the Petition, p. 10-11.

Cincinnati Car Co. v. N.Y. Rapid Transit, 66 F.2d 592, relied on by defendants (Resp. Brief, p. 15), is specious since it related to a patentee of a refrigeration unit for a railroad car who wanted all the profit from running a railroad. Clearly he did not have a patent on the operation of a railroad, and certainly it was not a process patent for such operation. By contrast the Foster patent is that of the *process* of making pipe a certain way and the entire such process of making pipe

---

of an improper infringement base is related to his firm's conflicting representation of TOCCO (The Ohio Crankshaft Company) (see Resp. Brief pages 9b and 12b) in litigation over the very invention here at issue and as a result of which AMF licensed TOCCO to make the very same apparatus and use the same process held herein to infringe. This serious conflict was dismissed as "specious and unpersuasive" although undisclosed and unknown to plaintiff until alerted by copious references to TOCCO not a party to this suit in the special master's preliminary report.

is the essence of the patent, hence anyone who uses the Foster process in making pipe is accountable for a reasonable royalty for that making of pipe in the infringing manner.

Similarly defendants' reliance (Resp. Brief, p. 15) on *Egry Register v. Standard Register,* 23 F.2d 438, is specious and not in point since it relates to the patent in a combination apparatus of a special sprocket which merely facilitated the movement of the perforated-edged paper through a register, but was neither critical (Ibid., p. 440, points 1, 2) nor vital to the attainment of the objectives of the machine or sales of same. By contrast, the Foster invention is the PROCESS FOR THE MANUFACTURE OF PIPE OF DESIGNATED CHARACTERISTICS AS TO WHICH SAID PROCESS HAS BEEN FOUND TO BE VITAL IN THE INTERLOCUTORY JUDGMENT (297 F.S. 512, Finding #10, et seq.)

Again, a compelling reason for granting this writ is evident in view of this wide departure from established decisions and from the clear dictates of the statute.

RESPONDENTS HAVE FAILED TO SHOW PRECEDENT FOR DEPRIVING PETITIONER OF HIS RIGHT TO RECOVER FROM THE INDUCER OF THE INFRINGEMENT

Once more respondents have failed to show a single case where a single court, prior to this cause, has deprived the patentee of the rights vested under 35 U.S.C. Sec. 271(b) to recover for the infringing use of the petitioner's patented process from the inducer of the infringement.

Respondents (p. 19) refer to *Aro, supra,* for the proposition that a patentee "who has been fully compensated for direct infringement cannot collect anything additional for contributory infringement".

But petitioner has not been so compensated.

And there is no "direct infringement" of the patented process by respondents–only by their tube-forming mill licensee-customers whom respondents induced to use this process by incorporating respondents' equipment in a modified tube-forming system and using the process involved in the operation of the system. What equipment AMF does sell, and on the basis of which the courts have here set a royalty, is *not* the complete system or process of the adjudicated claims, as respondents concede. What AMF's tube-forming customers and licensees use, however, *is* the very patented invention of the claims.

And, though not awarding a royalty on the "use of the invention" of petitioner's process claims, the District Court none-the-less decreed (Pet. p. 35) that the award shall cover such "use by purchasers and lessees" of respondents.

Thus petitioner receives no royalty based on his valid claims whatsoever.

Respondent concedes that "The Amount of a Reasonable Royalty for the Use of a Patented Invention does not Change with the Identity of The One Who Pays It" (Resp. Brief, p. 16), but urges inducer-defendant should get a substituted low infringement base because induced actual infringer of process is said to have been unwilling to pay on the "use" basis required by statute as minimum reasonable royalty.

The suppositious negotiation through which the reasonable royalty is to be formulated *requires a willing*

licensee and a willing licensor. Here the suppositious licensee of the process which was infringed is presumed to be an unwilling licensee, and it is urged by respondent that there is therefore only limited recourse against the joint tort feasor inducer. Clearly, the infringing production of pipe under defendants' 67 inducing licensees which was stipulated to be $1,735,555,000.00 is the infringement (use) base required by the statute (35 USC 284), supra) and for which the inducer is liable.

To say that the actual infringers of the patented process would not pay any royalty based on their use of the invention and therefore the statutory requirement of a minimum award based thereon is inapplicable to an inducer jointly liable for such damages, is sheer mockery of the statutes.

In a suite directly against anyone of the 67 induced infringing pipe producers, a defense of unwillingness to pay a royalty based on *use*, as required by statute in formulating a reasonable royalty as a minimum award, would necessarily be rejected as frivolous. How then can such a defense by a jointly liable inducer avoid this statutory standard or permit a lower and lesser standard?

If the joint liability of inducers as required by statute (35 USC 271(b), supra) is abrogated by inaction of this court, a multiplicity of suits by an action against each induced infringer (in this case 67 suits) in order for patentee to avoid that "half a loaf" approach to justice which the decision here on petition will be spawned.

While respondent admits in its brief at page 20 that AMF is "an inducer" of its customer-licensees' infringement of the plaintiff's patented process for making pipe, respondent could not show any way the

award was based on the induced "use" of the process patent as required by statute.

Respondents have completely failed to counter petitioner's showing that in this regard, also, the decision in this case reflects another wide departure from the long-established law of this Supreme Court and the other courts of the land as to liability of joint tort feasors, and the interpretation of 35 U.S.C. Sec. 271(b) securing to a patentee the right to hold the inducer for the infringement.

Respondents have also ignored the consequences apparently approved herein by the Court of Appeals for the Second Circuit, that petitioner should be compelled to proceed individually against each of the "77 mill operators as direct infringers" (Pet. p. 5). This clearly thwarts this Supreme Court's effort to reduce litigation and the whole purpose of the Sec. 271(b) of the statute.

As stated in the petition, in striking down the "exclusive" right in a valid patent, and thwarting the statutory and decisional law as to infringement liability, the decision in this case has raised most substantial questions of federal and constitutional law which should be promptly decided by this Court.

The present case is a serious departure from the previously quoted holdings of the Supreme Court in the *Hartford-Empire* and *Chapman v. Wintroath* cases, *supra*:

> A party seeking a right under the patent statutes may avail himself of all their provisions, and the courts may not deny him the benefit of a single

one . . . No court can disregard any statutory provisions in respect to these matters . . .

Granting of the petition is thus respectfully urged.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that I served Petitioner's Reply Brief on attorney for Respondents by mailing, first class, postage prepaid, three copies of said brief to William K. Kerr, Fish & Neave, 277 Park Avenue, New York, New York 10017, this day of July, 1974.

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SUPREME COURT

IN THE

Supreme Court of the United States

OCTOBER TERM, 1973

No. 73-1744

JULIUS E. FOSTER,

Petitioner,

v.

AMERICAN MACHINE & FOUNDRY CO., *et al.*,

Respondents.

MOTION FOR LEAVE TO FILE AND PETITION FOR REHEARING

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Since the intervening circumstances referred to in this Petition for Rehearing have just been published, have just come to the attention of petitioner's counsel, and are promptly being called to this Supreme Court's attention, favorable action on the motion to extend the time for filing this petition for a rehearing is respectfully requested.

As will be evidenced from annexed copy of the just-distributed Law Journal of the American Patent Law Association (APLA), Volume 11, No. 3, the ponderous constitutional and statutory issues of the present Foster case as presented in the original petition for a writ of certiorari herein, *have skyrocketed into national legal prominence.*

As the editorial of the Law Journal itself points out:

> "When we first decided on this issue, Foster II, which a consensus of authors considers a most significant departure from the present law in this area, had not as yet been handed down. Now with this new decision, the treatment of this subject should be of timely interest."

Unknown to your petitioner, four of the leading lawyers of this country, representing some 3800 lawyers of the APLA, have devoted this complete Law Journal to a discussion of the far-reaching disastrous effects of compulsory licensing of valid patents stemming from the Second Circuit Court of Appeals' decision in this Foster case.

We have indicated some of the more salient comments and fears of these legal authorities by marginal markings in the annexed copy of this Law Journal.

To a man, these authorities have condemned the unconstitutional and radical usurpation of power exercised by the Court of Appeals in forcing Foster to a compulsory license under his admittedly valid patent and to accept payment terms directly contrary to the statutes, as set forth in the very questions presented in the original petition for certiorari herein.

They have, moreover, pointed out the detrimental effects that this decision will have on the whole

American industrial community and economy, particularly in these most difficult economic times that are upon us, if the Supreme Court refuses to review this decision.

To our knowledge, never before has a complete Law Journal been so dedicated to a discussion of the detrimental effects of a court of appeals decision—and we earnestly believe this points out the urgent necessity for this Supreme Court to reconsider its denial of the petition for certiorari herein.

Rarely has so radical a decision, pregnant with far-reaching constitutional and economic questions in the patent field, been presented to the Supreme Court; and this imposing protest and warning of dire consequences to our economy by the APLA should be heeded . . . and heeded to the extent of granting the petition for certiorari.

It is hereby certified that this Petition for Rehearing is well founded in law and fact, that it is based upon substantial grounds in intervening circumstances of substantial and controlling effect, that it is presented in good faith, and that it is not interposed for the purposes of delay but in the interest of justice, due process of law and avoiding duplication of litigation.

Respectfully submitted,

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APLA QUARTERLY JOURNAL

Vol. II SUMMER 1974 No. 3

A discussion on the compulsory licensing of patents in the United States by:

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Leroy Whitaker of Indianapolis, Ind.
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B. R. Pravel of Houston, Tex.

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for

THE PATENT BAR

by

THE PATENT BAR

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EDITORIAL

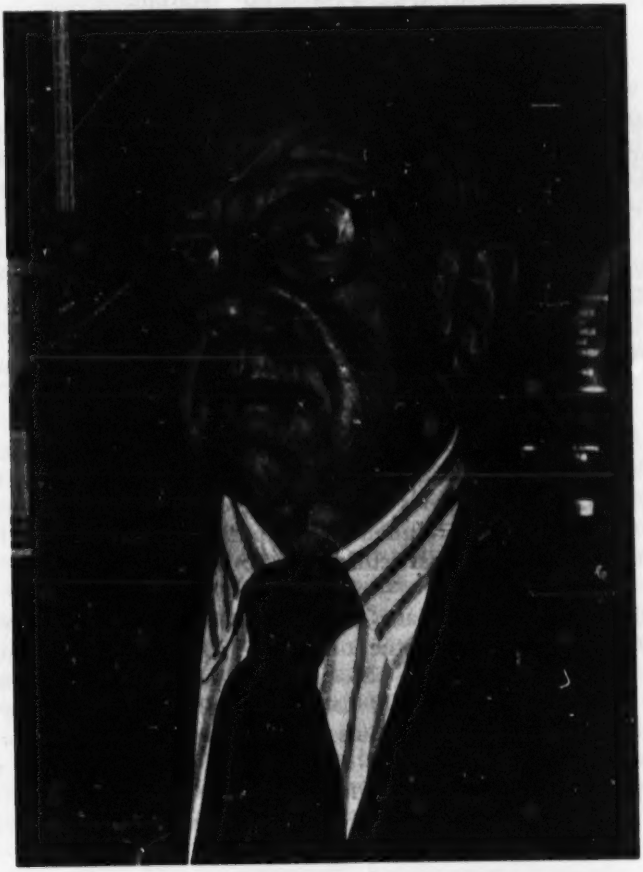
Our summer issue of the JOURNAL is devoted to compulsory licensing. This topic has been much discussed by the patent bar, primarily because several proposed Congressional bills have contained such provisions.

When we first decided on this issue, *Foster II*, which a consensus of authors considers a most significant departure from the present law in this area, had not as yet been handed down. Now with this new decision, the treatment of this subject should be of timely interest.

Our topic this time is not treated in the typical *pro* and *con* fashion, because we found it substantially impossible to find any spokesmen for the completely *pro* compulsory licensing approach. Thus, we have the limited *pro* approach being taken by Messrs. Goldsmith and Morton, the former suggesting important bases for compulsory licensing both in history and foreign practice, as well as interpreting the constitutional grant as requiring compulsory licensing when non-use is apparent. The latter finds his justification for proceeding with a specific legislative proposal in the precedent of the Foster II case. The exceedingly wide-ranging papers of Messrs. Whitaker and Pravel set down what might properly be described as the majority view of most patent practitioners.

As before, we invite your thoughts and suggestions for the JOURNAL.

S. DELVALLE GOLDSMITH



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THE CASE FOR "RESTRICTED" COMPULSORY LICENSING

BY S. DELVALLE GOLDSMITH

Compulsory licensing for "non-working" of a patented invention is a fact of law, but not a fact of life, in most other countries. A fact of law because there are compulsory licensing provisions in the patent laws of nearly every important country except in the United States[1]. Not a fact of life because there are few grants of compulsory licenses in countries having these provisions. This does not mean that the compulsory license laws are not working but that, with such laws in the background, the parties that might be subject to their control would usually rather deal with each other on a voluntary basis[2].

The reference to few compulsory license grants applies to compulsory licenses for non-working and not to compulsory licenses obtainable in many countries for food and drug inventions whether they are worked or not. Numerous compulsory licenses of the latter type have been granted, particularly in Canada[3].

The above points up a basic difference between the two types of compulsory licensing: on the one hand compulsory licensing as advocated by some (usually those who do not believe in a patent system at all) under which all patents, or all patents in a particular field, are subject to compulsory licensing whether or not the patented invention is worked; on the other hand, restricted compulsory licensing of the type where a license will be granted only where an invention for which there is a demand is not "worked"

1. Vojacek, A Survey of the Principal National Patent Systems, pages 63-65 (1936). See for example Section 37 of the British Patent Acts 1949-1961 which provides that:
"At any time after the expiration of three years from the date of the sealing of a patent, any person interested may apply to the comptroller upon any one or more of the grounds specified in the next following subsection for a license . . ." One of the specified grounds is:
"that the patented invention, being capable of being commercially worked in the United Kingdom, is not being commercially worked therein or is not being so worked to the fullest extent that is reasonable practicable."

2. "The total number of applications for leave to exploit an invention against the wish of the patentee . . . have been very few. Indeed a court may be inclined to view such an application (for a compulsory license) with the suspicion that the applicant is endeavoring to secure some unreasonable commercial advantage . . . which he cannot obtain by straight-forward negotiation". See Terrell and Shelley on Patents by K. E. Shelley, Q.C. (Great Britain)—10th edition, page 249 (1961).

3. Thus, in the case of *Sterilab Corp. Ltd. v. Chas. Pfizer & Co. Inc.* 62 Canadian Patent Reporter 94 (1970), an Editorial Note of the reporter says "As a practical matter, the license (for a pharmaceutical patent) will be granted almost as a matter of course."

by the patentee or allowed by him to be worked by others, i.e. prevented from reaching the market place.

The first type of compulsory licensing, as exemplified by the aforementioned food and drug licenses, if extended to all areas of technology, would probably mean the end of patents as such and possibly also serious diminution of research and development. What incentive would there be to spend money on R & D when, after an invention was successfully commercialized, a competitor could get a license to use it without spending money for research, development, pilot plants and consumer-education? In fact, with such a regime of general compulsory licensing, not only would competitors not engage in research, but there would not be any research in the first place for them to take advantage of[4].

The second type of compulsory licensing (i.e. for non-working) is quite different. As long as the invention is put to use by the patentee or a licensee, no compulsory licenses would be granted. On the other hand, if the patentee did not use the invention himself and refused to allow a third party desirous of using it to do so, i.e. where there was so-called "suppression" of an invention, the patent in question would be open to compulsory licensing—with royalty payment to the patentee if a license is granted and with an opportunity for the patentee to prevent or postpone grant of a compulsory license, if he could justify non-use of the invention.

The main objection that seems to have been raised to compulsory licensing for non-working is a rather weak one, namely that there is in fact no "suppression" of patented inventions. This may be true because, in our competitive economy, an individual or company having a meritorious invention with public appeal is usually anxious to put it into practice and reap the rewards of commercial success. But the short answer to this objection is that, with compulsory licensing for non-working, compulsory licenses will not be granted if there is in fact no suppression. So anyone who doesn't like compulsory licensing should not be dissatisfied with compulsory licensing legislation of this type.

4. Former Patent Commissioner Robert Gottschalk, thought by many to oppose all forms of compulsory licensing, expressed himself before the ABA Patent Section in San Francisco in August 1972 as being opposed to types of compulsory licensing "which would dilute the incentives . . . provided by the patent system". He pointed out that "a compulsion to invent around would not exist with a *broad* system of compulsory licensing" (emphasis aded). It is unfortunate that, in the same speech Commissioner Gottschalk also said "compulsory licensing . . . precludes the patentee's option to practice his invention in an exclusive basis." Of course, this statement is correct only if the word "bread" is understood before "compulsory licensing". See the 1972 Summary of Proceedings of the Section of Patent, Trademark and Copyright Law—American Bar Association, p. 168 et seq.

To be fair we should also consider the other objections to compulsory licensing, especially as they may be somewhat more logical than the objection discussed above.

The first of these other objections is that any sort of compulsory licensing reduces the value of a patent and consequently the incentive to use a patent system. Of course this is true. Any one of a number of factors will reduce the value of a patent, for example setting the term at 10 instead of 17 years, providing more grounds for attack on patent validity, or restricting licensing and other ways of making money from a patent. Reduction in value of a patent (and consequent reduction of incentive to obtain patents) is a matter of degree. In each instance, the disadvantage of reduction in value of the patent must be weighed against any advantages obtained by the restrictive factor involved.

Another objection raised against compulsory licensing is that it would be difficult for the Courts (or an administrative body) to decide if there is or is not non-working of a patented invention such as to justify the grant of a compulsory license. This is undoubtedly true, but certainly no more difficult than other questions that have to be decided by our Courts such as non-obviousness in patent cases generally, application of the "rule of reason" in anti-trust cases, and guilt or innocence in criminal cases. If there are advantages to compulsory licensing, we should not shut ourselves out from them merely because difficult issues may have to be decided[5].

The main advantage of compulsory licensing is to bring an invention to the market place which would not otherwise get there. A fringe benefit of compulsory licensing is that it would probably improve the public image of the patent system.

Patents (in the eyes of the general public and even the judiciary) start out with several strikes against them. In the first place, they are not understood. As former Justice Fortas states:

"Many federal appellate judges—perhaps most of them—ap-

5. Three of the very few British cases on compulsory licensing for non-working are the following: *Kamborian's Patent*, [1961] Reports of Patent, Design and Trademark Cases (hereinafter referred to as R.P.C.) 403—Compulsory license refused although the applicant for the license objected to the terms of an offered voluntary license as unreasonable and contended that a demand for the patented article had not been met by the patentee. *Fette's Patent*, 1961 R.P.C. 396—6½ years after the grant of the patent, a compulsory license was granted at a 10% royalty rate although the patentee contended that the elapsed time was insufficient for exploitation.
Penn Engineering and Manufacturing Corp's Patent, 1973 R.P.C. 233—Compulsory licence at a 5% royalty rate granted where a demand for the product in Great Britain was being supplied solely by importation.

proach patents with the kind of suspicion and hostility that a city-bred boy feels when he must traverse a jungle full of snakes."[6]

In the second place, as they are monopolies, they are looked upon as anti-competitive and consequently bad. Here again there is a lack of understanding. Patents—although they are monopolies—are basically competitive rather than anti-competitive. They are competitive because of their very nature as monopolies: competitors are stimulated to "invent around" the patent monopoly, i.e. to create equal or better products which will not infringe the patent.

Opponents contend that compulsory licensing would reduce this competitive effect of patents. However, this would be true, only if the patentee did not use or permit others to use his invention. If, as opponents of compulsory licensing say, there is no such suppression, competitors could not obtain a compulsory license and would still have the incentive to "invent around" the patent. If a patented invention is suppressed, the grant might presumably be held invalid[7] in the absence of the less severe penalty of compulsory licensing provided by a restricted compulsory licensing law.[7]

The third difficulty for patents is the patent-antitrust "interface" which seems to set the patent—mistakenly looked upon as an anti-consumer monopoly—against the consumer-protective features of antitrust law. Here again there is confusion. To the extent that the exercise of patent rights is coextensive with a properly granted patent monopoly (i.e. for a new and non-obvious fully disclosed invention), there is no conflict with antitrust law. On the other hand, where patent rights are asserted on the basis of an invalid patent or extend beyond the boundaries of the patent right (for example to control unpatented material), there is a conflict with antitrust law. In such a case the abuse of the patent law (not the patent law itself) will be struck down by the Courts.

All this may seem to lead away from a discussion of compulsory licensing itself, but there is the underlying concept that, if more popular support for patents can be secured by providing for compulsory licensing, this may lessen attacks on the patent system itself. In this connection Justice Fortas writes:

"We must recognize the depth of the attack (on the patent system) and of the public attitude from which it emerges. It is a

6. A. Fortas, The Patent System in Distress 53 JPOS 810, (1971).

7. In *Blount Manufacturing Co. v. Yale & Towne Manufacturing Co.*, 166 F 555. D.Mass. 1909. the court stated: "An attempt to make profit out of letters patent by suppressing the invention covered thereby is outside the patent grant . . ."

dangerous period, for those who believe they are attacking the abuses of the system may inadvertently damage the system itself."[8]

In final support of compulsory licensing for non-working, the question can be posed as to whether a patent law without such a provision (supplied judicially if not legislatively) complies with the Constitutional purpose "to promote the progress of science and useful arts". Query: are science and the useful arts really advanced if an invention is patented, not used by the patentee, and not allowed by the patentee to be used by others, even if there is a need for the patented product? With a situation such as this, science and the useful arts would seemingly be stagnated rather than advanced. where he states:

"It is . . . difficult to see how suppression of patents can be reconciled with the provision of the statute which authorizes a grant of the 'exclusive right to make, use and vend the invention or discovery' . . . How may the words "to make, use, and vend" be read to mean "not to make, not to use, and not to vend?"

Another way in which science and the arts may be stagnated rather than advanced by a "suppressed" patent is where a substantial improvement of a patented invention is made and cannot be brought to the market place without the permission of the patentee, which permission is refused. Many foreign countries provide for this type of compulsory licensing as well as compulsory licensing for non-working *per se*[10].

In addition to the constitutional purpose of promoting progress of science and useful arts, which must of course be carried out by any constitutionally proper patent law, there is on the other hand the constitutional requirement of securing to the inventors the exclusive right to their discoveries. Does this mean an exclusive right to "own" their discoveries? It would seem not. They already own them exclusively and can keep them secret if they desire. It must mean the *exclusive* right to *use* their discoveries, i.e. to prevent others from using their discoveries wtihout their permission[11]. In other words, the purpose of the patent provision in the Constitution is not just to reward the inventor, but to promote the progress of

8. *Supra*, note 6.

9. 324 U.S. 370, 64 USPJ 525 (1945).

10. See for instance Article 46 of the Swedish Patent law reading in part as follows: "The owner of a patent for an invention, the exploitation of which is dependent on a patent owned by another person, may obtain a compulsory license to use the invention protected thereby, provided that this is reasonable in view of the importance of the first-mentioned invention or for other special reasons prevailing."

11. *Supra*, note 9.

science and useful arts for the general benefit of the country's economy. This can only be accomplished by use rather than suppression of patented inventions. And this is what compulsory licensing for non-working is all about.

In the recent *Kewanee* decision[12], the Supreme Court refers to the object of the Constitution's patent provision in the following terms:

> "The productive effort thereby fostered (by the patent laws) will have a positive effect on society through the *introduction of new products into the economy. . .*" (emphasis added)."

Is there any such "introduction of new products into the economy" if a patented invention is "suppressed"?

Later in the same decision, the Court refers to the fact that under the patent laws "the Federal Government is willing to pay the high price of 17 years of exclusive *use* for its (the invention's) disclosure. . ." (emphasis added). Is there any such use (properly exclusive, i.e. by the patentee or his licensees only) if a patented invention is "suppressed"?

Certainly, British patent law, and also United States patent law to a considerable extent, have a basis in the British Statute of Monopolies[13] which declared invalid all monopolies (such as were formerly granted by the King to his favorites for staple articles of trade) except monopolies for "the sole working or making of any manner of new manufacture within this realm . . . so as also they be not . . . mischievous to the State . . . or hurt of trade or generally inconvenient." Thus, at the very inception of modern patent law, the idea of "working" and "making" was involved. It was recognized that even a patent monopoly for a new manufacture might be hurtful rather than advantageous and would be void on that ground. The interface between patent laws and other laws (such as our antitrust laws) is accordingly nothing new. Where a patent serves a proper and useful purpose, it is a beneficial monopoly. Where it is hurtful or inconvenient to the economy it should be invalidated or, as a lesser penalty, subject to measures such as compulsory licensing.

A counter argument against the Constitutional argument for compulsory licensing where an invention is not used is that, even without use of the invention, the grant of a patent will promote the progress of science and useful arts, because a description of the

12. *Kawanee Oil Co. v. Bicron Corp.* ___U.S.___, 181 USPQ 673 (1974).
13. Statute of Monopolies, 21 Jac. 1, c.3, enacted May 24, 1624.

patented invention has been supplied and published and that, if the value of a patent is too much reduced by compulsory licensing, there will be more of a tendency to keep inventions secret rather than disclosing and patenting them. It may be true that some inventions could be maintained in secrecy, but this is certainly not true for many types of inventions such as consumer products. If the invention is a consumer product which the patentee intends to put on the market, secrecy will of course be impossible and compulsory licensing would have no effect as far as secrecy is concerned.

If the invention is susceptible of secrecy (e.g. a process not disclosed by the finished product) there may be a tendency to try and maintain the invention as a trade secret instead of patenting it. Secrecy, however, involves the standard dangers that the secret may leak out or that the invention may be independently invented by another. In the latter case, the first inventor would not only lose his secret, but might even be prevented from further practice of his own invention. State trade secret laws (as validated by the Kewanee decision) protect the secret only from thievery or use following confidential disclosure. They offer no protection against copying the invention after it has been publicly disclosed or against use and control of the invention by an independent inventor.

In Kewanee (*supra*) the Supreme Court held

> "In the case of trade secret law no reasonable risk of deterrence from patent application by those who can reasonably be expected to be granted patents exists.
>
> Trade secret law provides far weaker protection in many respects than the patent law."[14]

Thus, in the unlikely case of suppression, the possibility of the stronger protection under patent law (even with compulsory licensing) would have to be weighed against the weaker protection under the trade secrets law. The latter might ultimately result in no protection at all. In all these cases, the question of whether or not there is a compulsory licensing law is of no importance as regards secrecy if the inventor intends to use his invention since, with a compulsory licensing law for suppression only, no compulsory licenses would be granted.

14. Supra note 12. Also see *Sears, Roebuck & Co. v. Stiffel Company*, 376 U.S. 225, 140 USPQ 524 (1964); *Compco Corp. v. Day-Brite* 376 U.S. 234, 140 USPQ 531 (1964).

It should not be forgotten that the Courts already have compulsory licensing power and have exercised this power in antitrust situations[15]. Also, in cases of public health or welfare[16] the Courts have denied injunctive relief to a patentee who does not permit the patented invention to be used. In the very recent case of *Foster v. American Machine & Foundry Co.*[17] the Second Circuit approved a compulsory license granted apparently not for any considerations of anti-trust abuse or special public interest, but because of non-use of the invention by the patentee. The patentee has asked the Supreme Court to review the Circuit Court's decision.

So compulsory licensing (in the sense that it may destroy some of the exclusivity of the patent grant) is not such a radical departure from the principles of U.S. patent law as the opponents of compulsory licensing tend to imply. The further step from a judicial to a legislative definition of compulsory licensing would be a logical one [18] and would have the double advantage of definiteness on the one hand and probable improvement of the public and judicial image of our patent system on the other hand. Just as the "Scott Amendments" under consideration in the current proposals for general revision of our patent law would provide legislated rules as to proper and improper licensing restrictions (rather than rules imposed by the Courts on a case-by-case basis varying with the current philosophy of the judiciary), legislated rules for compulsory licensing would give the patentee and manufacturer some indication in advance of what would or would not be proper as regards non-use of a patented invention. The Courts could then return to their proper function of interpreting and applying a law made by Congress rather than making law themselves. All this would probably mean less work for patent lawyers but, on the other hand, a more stable regime for the business community and economy generally[19].

15. *Hartford-Empire Co. v. United States* 323 U.S. 386, 64 USPQ 18 (1945); 324 U.S. 570, 65 USPQ 1 (1945).

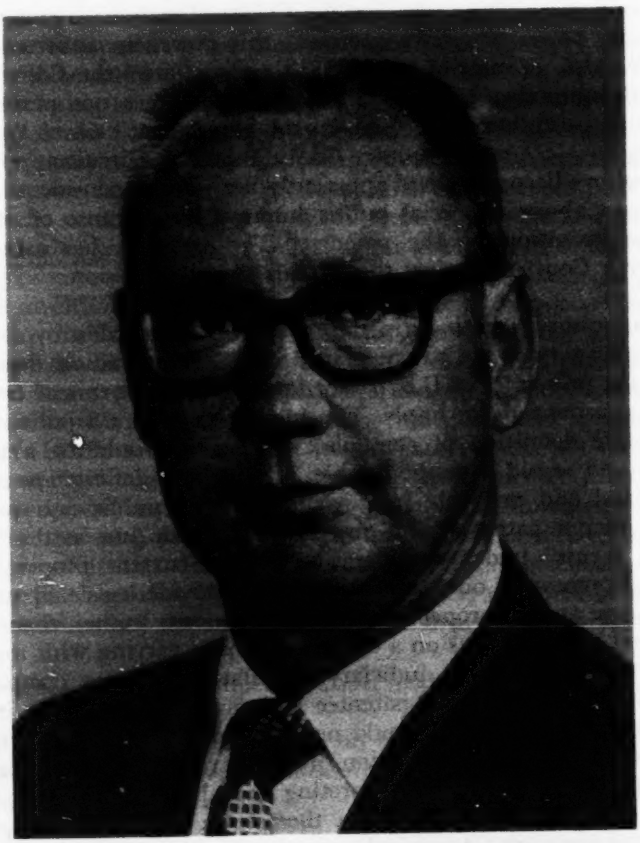
16. *The City of Milwaukee v. Activated Sludge, Inc.*, 69F. 2d 577, 21 USPQ 69 (7th Cir. 1934).

17. 492 F.2d 1317, 181 USPQ 1 (1974).

18. In *Special Equipment Co v. Coe*, see note 9, even though the majority opinion is said to stand for the position that "non-use is not misuse", it recognized the possibility of compulsory licensing legislation by indicating that compulsory use or licensing was a matter for Congress to consider.

19. The petition for certiorari in *Foster v. American Machine & Foundry Co.*, supra, note 17, although violently opposing compulsory licensing as confusing "the exclusive privilege of valid patents and the rights of patentees" seems to recognize "the right of Congress" to legislate in this field. See BNA's Patent, Trademark & Copyright Journal, No. 181, June 6, 1974, p. A-8.

LEROY WHITAKER



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COMPULSORY LICENSING — ANOTHER NAIL IN THE COFFIN

BY LEROY WHITAKER

For several years, the patent system has been under attack from various quarters. Detractors continue their efforts in the courts and in Congress to weaken the patent system. The objective appears to be to make patents more difficult to obtain, more difficult to enforce, and of less value to the patentee. We in the patent bar and those we represent must resist such efforts rather than support or instigate them, as appears to be the case with many of them.

The compulsory licensing of patents is an issue that has been widely discussed in recent years. As has been frequently pointed out, the grant of exclusivity provided by the Constitution is being slowly chipped away by judicial decision and special legislation. There are those who now advocate a general compulsory licensing statute. It is the thesis of this paper that such a statute would be a severe blow to the patent system—another nail in the coffin in which opponents of the system would like to see it buried.

Reasons Advanced In Support of Compulsory Licensing

Why is there support for a general compulsory licensing statute? Are there cogent reasons why such a statute is needed? Proponents of compulsory licensing have given several reasons for their support. Let's review these reasons.

Suppression

One of the most frequently heard arguments in support of compulsory licensing is that meritorious inventions are being kept from the public by patentees who cannot or will not supply the demand and will not license others to do so. Such arguments usually mention the 50 mile per gallon carburetor, the 100,000 mile tire, or the cancer cure. Since we've been hearing of these marvelous inventions

for many, many years, the patents covering some of them must have expired years ago. However, none of these inventions are on the market. Somehow, the patentee must have found a way to continue to suppress the invention after the expiration of his patent.

Proponents of compulsory licensing who argue suppression have

difficulty in finding instances of suppression to support their position. An invention becomes a matter of public record when the patent on it is granted. Seventeen years later anyone is free to practice the invention. As then Commissioner of Patents Gottschalk said in August, 1972, "Yet I am sure that I never heard of any single instance where a single 'suppressed' invention suddenly blossomed out when the patent on it expired."[1]

In the few cases of suppression that have occurred, the courts have had no difficulty in providing a remedy. In *Vitamin Technologists v. Wisconsin Alumni Research Foundation*,[2] the licensing practices of the patentee were found to be contrary to the public interest and the court concluded that the patent was unenforceable. In the recent case of *Foster v. American Machine & Foundry Co.*,[3] the patentee was not using the invention nor had he licensed others to do so. The court denied an injunction and, instead, granted a compulsory license to the infringer. Apparently there was no finding of a public interest and no harm to anyone other than the defendant through enforcement of the patent. It is submitted that in the absence of such a finding the decision in *Foster* is at variance with the widely accepted view that a patentee is free to use his patent or not, as he wishes.

Yet, in spite of the lack of substantial evidence of suppression of patented inventions, and in the face of the irrationality of believing that a patented invention can be forever suppressed, there are still those who argue that compulsory licensing is needed to prevent suppression. In introducing Senate Bill S.2287, Senator Hart stated that one of the goals of his bill is to provide that the patent system cannot be used to block the implementation of technology which is in the public interest.[4]

Senator Hart considers the failure to use a patented invention as "an abuse of the patent monopoly". In my opinion, the Senator's view fails to recognize the true nature of a patent grant. A patent does not confer a monopoly in the generally accepted sense. In order to obtain a patent, an inventor must have discovered something new, i.e., something not previously available. Therefore, a patent does not confer a monopoly in the generally accepted sense. In order to obtain a patent, an inventor must have discovered

1. Address by the Hon. Robert Gottschalk before the Section of Patent, Trademark and Copyright Law, American Bar Association, San Francisco, California, August 12, 1972, published in *U. S. Department of Commerce News* (Patent Office), August 12, 1972.
2. 146 F.2d 941 (9th Cir. 1945).
3. 492 F.2d 1317, 182 USPQ 1 (2nd Cir. 1974).
4. 119 *Cong. Rec.* 15021 (daily ed. July 30, 1973).

something new, i.e., something not previously available. Therefore, a patent does not deprive the public of something which was previously available, but merely allows the patentee to control the new invention for a limited time. After a patent expires, the patented invention is freely available to all. The limited period of exclusivity conferred upon the inventor by the government is consideration for his disclosing the invention to the public so that it will be available for use by anyone upon the expiration of the patent.

But perhaps we in the patent bar take a more narrow view of the meaning of "suppression" than do those outside the patent bar. Is a patented invention being suppressed if the patentee asks more for a license than the prospective licensee is willing to pay? The remarks of Mr. E. Nobles Lowe made before the American Patent Law Association in October, 1972, indicate that at least in his view such a disagreement over the terms of a patent license might be considered to be suppression.[5] Certainly, Mr. Lowe's remarks could be interpreted to support the proposition that it is suppression to ask an "exorbitant" fee for a license. But who is to determine what fee is exorbitant? It is frequently very difficult to determine what is a proper royalty.[6]

And then there is the case of the thorough researcher who obtains a number of patents directed to a number of similar, but patentably distinct devices, all of which have the same utility. He chooses to market the one device he considers to be the best and fully meets the demand for such device. Is he suppressing his "unused" patents if he refuses to grant a license to permit a third party to manufacture and sell a device to compete with one he is marketing? I submit that he is not, since he is fully satisfying the demand for a device of the type in question. He should not be required to use the fruits of his research to put his competitors in business. I suspect there are those who disagree with me on this point.

I raise the issue of the meaning of "suppression" to suggest that before we glibly agree to legislation aimed at correcting the evil of suppression, we should first determine how the term is defined. In the context of compulsory licensing, the definition should be limited to failure to use or license the invention, which failure is detrimental to the public welfare.

5. Remarks of E. Nobles Lowe, Symposium on Modified Compulsory Licensing, American Patent Law Association, Washington, D.C., October 20, 1972, published in APLA Bulletin, October-November, 1972.

6. *American Photocopy Equipment Co. v. Rovico, Inc.*, 359 F.2d 745 (7th Cir. 1966).

Price

Compulsory licensing proponents also argue that patents contribute to artificially high prices and that compulsory licensing will result in the lowering of the prices of patented products. In remarks before the Senate, Senator Nelson has expressed the opinion that patents are at least partly to blame for what he considers to be high drug prices and he has advocated compulsory licensing of such patents as the cure for the alleged evil.[7] A like view was expressed by Congressman Rosenthal in 1973 when he introduced H.R. 5737.[8]

The pricing of products is a complex issue involving many factors such as the costs of research including the costs of research failures, the costs of market development, price competition from existing products, and the need for profit. Further, innovative companies are usually quite conscious of quality, incurring the further expense of quality control, while coat-tailers frequently don't worry about it. Generally, patents play a relatively minor role in pricing policies.

It is rare for even a patented product to enjoy a true monopoly position so that the patentee can charge what the traffic will bear.[9] There is almost always another product that will do the job of the patented product, although perhaps not as well. However, even though the patented product may be superior, it must be reasonably priced in relation to the inferior product in order to gain a share of the market. Frequently, when a patented new product comes on the market, competitors will "invent around" the patent and will soon have a similar product for sale, again fostering price competition.

One might expect that a licensee who has borne no research and development costs can sell a product cheaper than the patentee who must recover all his research expenses, both successful and unsuccessful, from the product he sells. This is especially true if the licensee is required to pay only the usual "reasonable" royalty of five percent.

The argument for lower prices also loses sight of the fact that price competition is not the only form of competition. Of much more benefit to the consumer is competition in the discovery and development of new products. Is it worth killing the research goose that

7. 118 *Cong. Rec.* 16336 (daily ed. September 29, 1972); 119 *Cong. Rec.* 15063 (daily ed. July 30, 1973).

8. 119 *Cong. Rec.* 1886 (daily ed. March 19, 1973).

9. Arnold and Janicke, "Compulsory Licensing Anyone?", 55 JPOS 149 (1973); Sease, "Common Sense, Nonsense and the Compulsory License," 55 JPOS 233 (1973).

lays the golden eggs of future products in order to obtain some price reduction on presently existing products?

Proponents of compulsory licensing who use the price argument are asking that research-based companies subsidize those who are not. This is a queer way to promote innovation and progress. We shall reward those who do nothing to promote progress at the expense of those who do. If this doesn't discourage research, nothing will.

Such a result will frustrate the Constitutional mandate of promoting the progress of science and the useful arts. Historically, price control has not been a function of the patent system and it should not now be allowed to become a function of the system.[10] Such a use of the patent system is clearly contrary to the intent of the Constitution.

Foreign Practice

The third major argument for compulsory licensing is that many foreign countries already have compulsory licensing provisions in their laws. It is argued that compulsory licensing would merely bring the United States into line with other major industrial nations. This was another objective cited by Senator Hart in introducing S.2287.[11] However, the situation in the United States is different from that which brought on compulsory licensing in other countries, and we should not be stampeded into accepting compulsory licensing, because others have it.

In many countries, most notably the underdeveloped nations, compulsory licensing statutes are based on nonuse of the patent. It is understandable that such countries want to encourage the establishment of manufacturing industries with the attendant increased employment opportunities. There is no research to be discouraged by compulsory licensing laws.

But many of the great industrial countries of the world also have compulsory licensing provisions in their laws. How do such provisions operate and what have been their effects?

Under Japanese law, a license may be demanded where the working of the patented invention has not been appropriately carried out in

10. D'Silva et al., "Patent Reform and the Drug Industry", Drug & Cosm. Indus. 52 (1970).
11. *Supra*, note 4.

Japan continuously for three or more years, where a second patentee requires a license under a dominating patent in order to practice his own invention and for nonworking if "specially necessary for the public interest". If the demand for the license is unsuccessful, arbitration by the Patent Office may be had. All these compulsory licensing provisions were enacted in 1960 and since that time there have been 12 demands for arbitration. To date, no compulsory licenses have been granted in Japan. There have been no serious efforts to strengthen or repeal compulsory licensing statutes in Japan.

Since 1911, West German patent law has included compulsory licensing provisions provided it "is in the public interest". Prior to the second world war, about 25 licenses were issued, and since 1945 there have been approximately ten requests. No compulsory license has been granted in the past 25 years.

Swiss patent law has since 1928 included provisions for compulsory licensing in situations substantially similar to those applicable in Japan. Only a few compulsory licenses have been granted by the Swiss courts, and all have related to the practice of a dependent invention under a dominating patent.

The concept of compulsory licensing is found in French law in the event of nonworking in France, in order to practice an improved second invention, for national defense purposes or if the interest of public health requires it and, in the case of drug patents, if the drug is not available in sufficient quantity or quality or is available only at an abnormally high price. Compulsory licenses have been granted under French law, only because of insufficient local working of the invention.

British law provides for compulsory licensing for abuse of patents or other showing of prejudice to local commercial or industrial activity or hindrance to exports. During the ten-year period from 1958 to 1968, two of 16 applications were allowed. There is also a provision relating to the compulsory licensing of patents on drugs and foods. The history of this provision is of interest.

Section 41 of the British Patents Act calls for the grant of a license under any patent which relates to a substance which is capable of being used as a food or medicine. Such provisions were first put into British law in 1919. During World War I, it became apparent that the United Kingdom was suffering from a lack of medicines and drugs, many of which involved inventions that were covered

by British patents held by foreigners. There simply was no substantial British pharmaceutical industry. To correct this situation, the Patents Act of 1907 was amended to provide for the compulsory licensing of drug patents.[12]

The causes which led to the enactment of the forerunner of present Section 41 of the British Patents Act clearly do not exist today. However, the section remains to plague the British pharmaceutical industry. In 1967, the Banks Committee was organized under the chairmanship of Mr. Morris Banks to examine the British patent system. The Committee concluded that there is no reason in principle why drugs should be treated differently from other patentable matters. They recommended the repeal of Section 41.[13]

Other commonwealth countries have adopted provisions patterned after Section 41 of the British Patents Act. None of such countries has a significant pharmaceutical industry. Canada is typical.

In 1971, A. M. Laidlaw, the Commissioner of Patents for Canada, in defending the compulsory licensing system in Canada, pointed out that the situation there is quite different from that in the United States.[14] Commissioner Laidlaw noted that approximately 95 percent of Canadian patents are granted to non-residents while almost 80 percent of United States patents are issued to United States nationals. It appears that the Canadian government recognizes and is willing to accept the fact that little research is done in Canada, and therefore, a strong patent system is not needed.

A low level of pharmaceutical research in Canada was also noted by the Banks Committee.[15] The Committee found the present Canadian situation to bear some resemblance to that which led to the introduction in 1919 of the special compulsory licensing provisions of British law. It found the purpose of compulsory licensing provisions in Canadian law to be the encouragement of pharmaceutical manufacturing in Canada, as well as to make drugs cheaper by means of increased price competition. Conditions under which drugs are manufactured and supplied in Canada are very different from those presently obtaining in the United Kingdom and, of

12. Address by A. J. Pickford before the Licensing Executives Society, United Kingdom Branch, September 17, 1969.

13. Banks, The British Patent System, Report of the Committee to Examine the Patent System and Patent Law, Her Majesty's Stationery Office, London (1970).

14. Address by the Hon. A. M. Laidlaw before the American Patent Law Association, Washington, D.C., January 25, 1971, published in APLA Bulletin, January-February, 1971.

15. *Supra*, note 13.

course, in the United States. Further, the few available figures concerning the effect of compulsory licensing on drug prices in Canada are confusing at best, and certainly do not show a clear reduction of prices to the consumer.

In view of the limited use of compulsory licensing provisions in foreign countries, it is argued that compulsory licensing would be little used in the United States. Such a conclusion does not necessarily follow. There is an anti-patent climate here that would encourage the grant of compulsory licenses. Also, the strong price motivation possessed by some would encourage the grant of compulsory licenses.

Limited Compulsory Licensing Already in Effect

It is argued that statutory compulsory licensing is not new to the United States. It is said to be found in such fields as atomic energy,[16] pollution technology,[17] and with regard to the protection of plants.[18] In addition, under the provisions of 2 U.S.C. Section 1498, a patented invention may be used or manufactured by or for the United States without a license. The patentee's remedy is an action against the government in the Court of Claims. Such statutes are either directed to highly specialized technology of extreme importance to public safety or they are not directed to the compulsory licensing of patents. For example, 28 U.S.C. 1498 is an eminent domain statute, while 7 U.S.C. 2404 is not concerned with patents, but with a different form of protection.

There have also been several instances of the judicial grant of a compulsory license in infringement cases where the infringer's practice of the patented invention was found to be important to public health, safety, or the environment.[19] Courts have also refused to grant injunctive relief in cases of fraud on the Patent Office,[20] of patent misuse,[21] or of antitrust violations.[22]

The argument advanced is that we already have compulsory licensing and there is no reason why we should resist further compulsory

16. 42 *U.S.C.* Sec. 2183.

17. 42 *U.S.C.* Sec. 1857(h) (6).

18. 7 *U.S.C.* Sec. 2404.

19. *The City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 21 USPQ 69 (7th Cir. 1934); *Viatmin Technologists v. Wisconsin Alumni Research Foundation*, 146 F.2d 941, 63 USPQ 262 (9th Cir. 1945).

20. *Chas. Pfizer & Co., Inc. v. Federal Trade Commission*, 401 F.2d 574, 159 USPQ 193 (6th Cir. 1968).

21. *Allied Research Products, Inc. v. Heatbath Corp.*, 300 F. Supp. 656, 161 USPQ 527 (N.D. Ill. 1969).

22. *Hartford-Empire v. United States*, 323 U.S. 386, 64 USPQ 18 (1945).

licensing provisions. However, it is apparent that the courts already have sufficient authority to prevent any of the alleged abuses of patent rights which are being cited as reasons for compulsory licensing. Therefore, there is no reason to adopt further compulsory licensing statutes.

Arguments Against Compulsory Licensing

The alleged benefits to be derived from compulsory licensing, even if realized, will not offset the many adverse effects. Many of the more important of such adverse effects are discussed below.

Discourages Research

Compulsory licensing would act as a deterrent to research in two ways. First, one objective of research has always been to gain a competitive edge, either with a new and better product or a new and better process. This objective would no longer exist if the competitor were assured of a license under inventions coming from research. Second, today's profits pay for the research leading to tomorrow's discoveries. If today's profits are curtailed as a result of having to compete price-wise with a licensee who has no research expenses, then of necessity research expenditures must be curtailed.

Any research program is by nature a risky undertaking. It would be rare indeed for any researcher to achieve immediate success with no failures strewn in his wake. Yet compulsory licensing would allow one who has not undertaken the risk of research to reap the benefits of the successful research of others. It is certainly unfair to reward those who make no contribution toward progress at the expense of those who have risked much in making a discovery.

Of significance too is the psychological effect of investing time, sweat, and money in a research program that eventually leads to a successful product only to see that product appropriated by others for their own gain. The situation is analogous to the ambitious young worker who tries conscientiously to do a good job while his more experienced co-workers do no more than is necessary. Our young worker soon learns that he gains nothing by his extra efforts since advancement is based on seniority, not merit. He soon loses his ambition. The research worker who finds his discoveries appropriated by others will soon lose his incentive to invent.

Money is a very necessary element of any research program. Industrial research is financed by company profits generated from current

sales. If the research is successful, the resulting new products and new processes will generate further profits, a portion of which can in turn be invested in further research. If the profits from which research investment come are reduced, it is inevitable that research will be reduced.

A research-based company that is forced to share its successful research with others will inevitably suffer a decline in profits. The introduction of competitive products to the marketplace will mean a loss in sales by the patentee with a resultant loss in profits even if the licensee sells at a price substantially equivalent to that of the patentee. If the licensee takes advantage of his lack of research costs to sell at a lower price, the patentee will be forced to meet the price and will suffer even further lost profits. If the licensee does not sell at a reduced price, he will be reaping windfall profits from which he will not be required to pay research expenses.

Concern over the threat to research posed by compulsory licensing has been voiced by such well-knokn persons as Dr. Vannevar Bush, noted for his outstanding contributions to academia, government and industry. In 1961 when Congress was considering compulsory licensing in the pharmaceutical industry, Dr. Bush made the statement that if compulsory licensing were to become law, America would no longer lead the world in the development of new and useful drugs.[23] It was Dr. Bush's contention that industrial research programs on drug development would be severely cut back if the bill on compulsory licensing of pharmaceutical patents was passed. The factors which prompted Dr. Bush's conclusions are still relevant, and it is not difficult to apply his reasoning to industrial research in any area in which patents are subject to compulsory licensing.

Some argue that if the expected decline in industrial research occurs, the slack can be taken up by increased government research. In any event, the consumer will pay the costs of research either as profits to a corporation or taxes to the government. A recent study in one field of technology has indicated that he will pay far more as a taxpayer.

Dr. L. L. Deutsch of the University of Wisconsin made a study of the relative productivity of industrial research and government research in the discovery of new drugs.[24] According to Dr. Deutsch,

23. Statement of Dr. Vannevar Bush before the Subcommittee on Antitrust and Monopoly of the Committee on the Judiciary, U. S. Senate, Concerning S. 1552, December 7, 1961.
24. Deutsch, "Research Performance in the Ethical Drug Industry", Marquette Business Review, Fall 1973.

in the period 1940 through 1967, 525 new drugs were discovered in the United States. Industrial laboratories accounted for 457 or 87 percent of these new drugs. In a typical year (1960), industry allocated $215 million to all types of research and development in medicine while government provided $341 million and private support amounted to $100 million. Taking out $112 million of government funds which were spent on basic research, industry's percentage of research expenditures was 39.5. Yet this percentage of expenditures accounted for 87 percent of the new drugs discovered. Dr. Deutsch concluded that industrial research makes a significant contribution to the drugs being marketed in the United States and recommended that the patent system be continued as an incentive for such research.

Reduces Product Competition

There is no greater incentive to discover new products than to have a competitor introduce a successful new product on which he has an exclusive position. To remain competitive, an equivalent or superior product must be discovered. Efforts are made to invent around the competitor's patent, often opening whole new areas of activity. This leapfrogging results in more and frequently better products for the consumer.

Commissioner Dann recently made this same point when pointing out that both patent law and antitrust law tend to stimulate competition, probably more often than they inhibit it.[25] In discussing the role patents play in fostering competition, Commissioner Dann stated:

> "The patent system provides a spur to competition in research and development simply by the threat posed to everyone in an industry that his competitor may get patents on its inventions."

Without the exclusivity which the patent system provides to the discoverer of the first product, there would be no incentive for a competitor to try to develop a competing product. If a license is available on a product already proved to be successful, why risk investment in research with the possibility of failure? It is much more practical to take a license and enter the market with the same product. In this way, the public and the patentee lose, but not the licensee.

25. Address by the Hon. C. Marshall Dann before the FBA-BNA Briefing Conference on Patents, Antitrust, and Trade Secrets, Washington, D.C., June 6, 1974, published in U. S. Department of Commerce News (Patent Office), June 6, 1974.

Leapfrogging may also occur by what has been referred to as "me too" research; i.e., research which is directed toward modification of the original product in an effort to avoid the patent. Such research has been criticized as curbing more exploratory research.[26] It is argued that competitors are encouraged by the prospect of obtaining "me too" patents to follow the leads disclosed in previously issued patents of their competitors at the expense of research in new fields. Research in such a previously defined area is relatively low-risk research offering a high probability of commercial success. However, even "me too" research is preferable, to no research at all.

Further, "me too" research frequently leads to significant discoveries. The Deutsch study[27] points out the importance of "me too" research and so-called "molecular manipulation" in the chemical and pharmaceutical fields. Based on a survey of 90 physicians in Madison, Wisconsin, Deutsch selected 18 drugs as being the most frequently prescribed or the most useful to physicians. Eight of the 18 drugs on the list had been discovered as a result of inventing around competitive patents. Many of these products exhibited effects quite different from the original drug, although closely related in chemical structure.

Thus, leapfrogging benefits the consumer by leading to new products and fostering product competition. This is so whether the leapfrogging occurs through "me too" research or research into new areas.

Product competition and the discovery of new products is essential to successful competition in international markets. In studying proposed mergers between British pharmaceutical companies, the British Monopolies Commission found that a high level of research activity was necessary within the pharmaceutical industry since successful international competition demands the discovery of new products.[28] The Commission concluded that the patent and trademark laws encourage research, and foster competition. Conversely, anything that tends to weaken such laws will discourage research and inhibit competition.

26. Chem. & Eng'r. News 48, November 13, 1961.

27. *Supra*, note 24.

28. The Monopolies Commission, Beecham Group Limited and Glaxo Group Limited; The Boots Company Limited and Glaxo Group Limited; A Report on the Proposed Mergers, Her Majesty's Stationery Office, London (1972).

Discourages Investment

The making of an invention is merely the first step in bringing the benefits of the invention to the public. Generally, a further substantial investment in time and money is required between discovery and marketing. The development of the invention includes the development of a commercially feasible manufacturing process, bringing the invention itself to commercial status which may include obtaining governmental approval for marketing, and promoting the invention and developing a market for it. The costs for such development programs might be substantially more than the costs for the research which led to the initial discovery.

In order to justify the investments necessary to market an invention, a sufficient period of exclusivity in the marketplace is required. Even a large corporation with a large and successful marketing component that can compete on equal footing with competitors would have a difficult time in justifying development expenditures with the knowledge that its competitors would soon be on the market too. Certainly, an independent inventor or small businessman would not be able to gain financial support for even the most meritorious invention when faced with certain competition from larger companies who can outperform him in the marketplace. Unless the necessary investment is made to develop an invention, the public is denied the benefit of it.

Investment in a new product or new venture is risky at best. The risk is justified only if there is a reasonable assurance of making a profit on the investment if the venture is successful. There is no such assurance when there is a certainty that competitors will move in on any successful venture. The competitor benefits from the patentee's investment and development costs, but incurs no risk of failure since he has the option of selecting only successful products.

Encourages Secrecy

The objective of the patent system is to promote the progress of science and the useful arts. This is done by encouraging inventors to make the results of their research available to the public in return for the limited exclusivity conferred by the patent grant. Others can then build upon the knowledge disclosed in the patent literature. One can only speculate as to the effect of withdrawing exclusivity. It is reasonable to expect that, at the least, inventors will be reluctant to publicly disclose the fruits of their labors when they get little or nothing in return.

Not all inventions can be kept secret while being utilized. Inventions which can be discovered by "reverse engineering" of the marketed product are not likely subjects for secrecy. However, there are many inventions which can be maintained as trade secrets while being practiced. Compulsory licensing will certainly encourage the use of trade secrets rather than the patent laws to protect such inventions. Science and the useful arts are not advanced by secrecy.

Ironically, when special compulsory licensing legislation is adopted or proposed for a particular field of technology, it frequently is directed to a field of technology where progress is most needed. Such is certainly true in such fields as human health, pollution technology, and energy. Compulsory licensing in such fields can serve only to inhibit research and the disclosure of technology and thus retard, rather than advance, technology in such fields.

Commissioner Dann has expressed surprise at the number of Congressmen and others who seem to feel that compulsory licensing is necessary in critical fields of technology.[29] He views such thinking as shortsighted in terms of national policy. The more important the technological area, the greater is the need for effective incentives to spur creative and innovative developments. Also, there is a greater need in such areas for early disclosure of new discoveries so that others may build on such discoveries, leading to further developments. Secrecy in such fields of technology is very undesirable.

Encourages Competition From Abroad

Although compulsory licensing will be a boon to domestic companies who do not engage in research, it will be an even greater boon to foreign companies. Domestic companies will compete with the patentee on the basis of comparable equipment and labor costs but will realize an advantage from no research investment. A foreign company, on the other hand, in addition to having no research investment, may also have a substantial advantage in equipment and labor costs.

A low-cost foreign operation has a very real potential for underselling all domestic producers—not only the patentee, but also domestic licensees. The prospective effect on the U.S. labor market should alone be enough to dissuade supporters of compulsory licensing.

29. *Supra*, note 25.

The spectre of low-cost foreign competition would be an even further deterrent to investment in research and development. Why make new discoveries and develop new markets with the prospect of being put out of business by foreign competition.[30] Low-cost foreign operations already have a competitive edge; let's not be foolhardy enough to increase their advantage.

Recommended Action

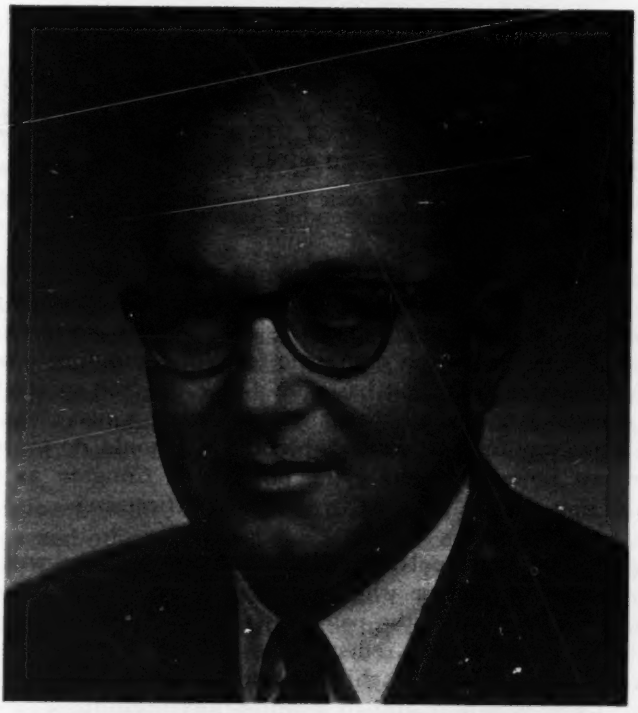
The vast majority of the patent bar agree that compulsory licensing is an evil that threatens the patent system. We disagree as to the steps that should be taken to meet the threat. There are two general schools of thought. One is that some form of compulsory licensing is inevitable and the patent bar should take the lead in fashioning the statute so as to make it palatable. The other is that compulsory licensing in any form is unthinkable and we should do everything within our power to educate the public and Congress as to the mischief that will be wrought by compulsory licensing.

Those of the first school believe that a statute can be written to satisfy the goals of those who want compulsory licensing without sacrificing the values of the patent system. I think one need look only to the goal of price reduction to see that no statute can be devised which will satisfy this goal while preserving the patent system. Those who have drafted a compulsory licensing statute have intentionally omitted price as a criterion for demanding a license.[31] Such an omission will not satisfy proponents of compulsory licensing who attribute alleged high prices to patents.

It is folly to think that a compulsory licensing statute making no concession to price will be acceptable to those members of Congress who associate patents with what they consider to be high prices. It is just such members of Congress who are the most adamant in demanding compulsory licensing legislation. If they are not satisfied, they will continue their demands and we will have unacceptable compulsory licensing legislation unless we can convince Congress that such legislation in any form is undesirable.

30. *Supra*, note 9.
31. *Supra*, note 9.

W. BROWN MORTON, JR.



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He has also been extremely active in Bar Association and related activities among which he was an advisor to the United States Delegation at the Washington Diplomatic Conference on the Patent Corporation Treaty in 1970, a member of the Advisory Committee on the Civil Rules, 1961-1970, and is an ABA representative on the National Conference of Representatives of the ABA and the American Association for the Advancement of Science, this year, 1974.

COMPULSORY LICENSING

An Unplanned-for Addition to the United States Patent System

BY W. BROWN MORTON, JR.

Introduction

It has been said that I am "for" compulsory licensing and thus deserving of various uncomplimentary epithets, the average of which is adequately expressed by "a misguided subversive". When I was asked to write this article some months ago dealing with a limited form of compulsory licensing, the *Foster v. American Machine and Foundry Company*[1] case had not yet been decided, but I was lucky. In my natural inclination to leave undone the things I ought to have done, I delayed long enough to have before me the opinion of the Court of Appeals for the Second Circuit in this *Foster* case, hereinafter *"Foster II"*.

Actually, I am personally opposed to compulsory licensing and recognize it as clearly antithetical to the basic premise of the patent system. I believe in the philosophy of the *Paper Bag Patent Case*[2]:

> "From the character of the right of the patentee we may judge of his remedies. It hardly needs to be pointed out that the right can only retain its attribute of exclusiveness by a prevention of its violation. Anything but prevention takes away the privilege which the law confers upon the patentee. If the conception of the law that a judgment in an action at law is reparation for the trespass, it is only for the particular trespass that is the ground of the action. There may be other trespasses and continuing wrongs and the vexation of many actions. These are well-recognized grounds of equity jurisdiction, especially in patent cases, and a citation of cases is unnecessary. Whether, however, a case cannot arise where, regarding the situation of the parties in view of the public interest, a court of equity might be justified in withholding relief by injunction, we do not decide."

I subscribe to the spirit of Mr. Justice Holmes' dissent in *Dr. Mills Medical Co. v. Park & Sons Co.*[3]:

1. 492 F.2d 1317, 182 USPQ 1 (2nd Cir. 1974).
2. 210 U. S. 405, at 430 (1908).
3. 220 U. S. 373, at 411 (1911).

> "***I think that at least it is safe to say that the most enlightened judicial policy is to let people manage their own business in their own way, unless the ground for interference is very clear.***."

I endorse Mr. Justice Frankfurter's like dissent in *Scott Paper Co. v. Marcalus Co.*[4]:

> "***As against the loss to the public of one possible manufacturer is put the public policy of fair dealing between man and man.***".

Notwithstanding these personal beliefs, I think the point of view Tom Arnold and I expressed at the 1973 APLA Spring Meeting in St. Paul[5] was the course of wisdom and I think *Foster II* proves our point. I shall proceed to an analysis of *Foster II*.

The Foster II Decision

The decision here under analysis deals solely with the remedy to be afforded an owner of a patent found valid and infringed. The patent in suit, No. 2,882,384 issued April 14, 1959 entitled "Welding System", related to an improvement in electrical contact resistance welding and included both *apparatus* and *use* claims. It was found valid and infringed in *"Foster I"*.[6] Damages were awarded on a reasonable royalty theory based on the output power of the infringing apparatus. We are not here concerned with this application of 35 U.S.C. §284 (relating to damages); rather we are concerned with the revolutionary application of 35 U.S.C. §283[7], the full text of which "revolution" I quote *verbatim*:

> "Appellant contends that the District Court erred in denying an injunction and adjudging, in lieu thereof, a compulsory licensing in favor of appellant at the royalty fixed by the Court.
>
> "We do not find any difficulty in agreeing with Judge Palmieri that an injunction would be an inappropriate remedy in this

4. 326 U.S. 249, 67 USPQ 193 (1945).

5. 1973 Spring Meeting of the American Patent Law Association at St. Paul, see APLA Bulletin, April-May 1973, pp. 255-259.

6. *Foster v. Magnetic Heating Corporation*, 297 F. Supp. 572, 160 USPJ 246, aff'd per curiam, 410 F.2d 12, 161 USPQ 133 (2 Cir.), cert. denied, 396 U.S. 829, 163 USPQ 704.

7. §283 Injunction
The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

case. An injunction to protect a patent against infringement, like any other injunction, is an equitable remedy to be determined by the circumstances, 35 U.S.C. §283. It is not intended as a club to be wielded by a patentee to enhance his negotiating stance. See Hoe v. Boston Daily Advertiser Corp., 14 F. 914. Here, as the District Court noted, the appellee manufactures a product; the appellant does not. In the assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable. Nerney v. New York, N.H. & N. R. Co., 83 F.2d 490, 410-411, 29 USPQ 456, 457-458; American Safety Device Co. v. Kurland Chemical Co. 68 F.2d 734, 21 USPQ 30.

"Instead, the District Court avoided ordering a cessation of business to the benefit of neither party by compensating appellant in the form of a compulsory license with royalties. This Court has approved such a 'flexible approach' in patent litigation Royal-McBee Corp. v. Smith-Corona Marchant, Inc., 295 F.2d 1, 6, 130 USPQ 377,381. Here the compulsory license is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair".[8]

It is apparent that the Second Circuit[9] does not acknowledge the revolutionary nature of its ruling, but rather seeks to cloak its decision in the respectable trappings of precedent. We shall show these trappings to be no more real than the celebrated Emperor's clothes.

Turning to the facts found operative in the application of 35 U.S.C. §283 in *Foster II* as stated in the Second Circuit opinion, these include:

* * *

"The appellant, Julius E. Foster, the patentee and the owner of the patent in suit, is a patent solicitor and a member of the Bar of the State of New York and of the Commonwealth of Pennsylvania. He has been at the Bar for almost fifty years. He has never engaged in any manufacturing or other business connected with the patent in suit.

8. Supra note 1, at p. 6.

9. The decision was made by a panel consisting of Circuit Judges Waterman and Feinberg, both active Second Circuit judges, and District Judge Gurfein, sitting by designation from the Southern District of New York. Judge Gurfein wrote the opinion.

"The principal defendant and real party in interest is appellee American Machine & Foundry Co. (AMF). Infringement of the patent has occurred as a result of the commercial activity of AMF's wholly-owned subsidiary, AMF Thermatool, Inc., and its predecessors, and the individual proprietors of such predecessor corporations (herein collectively referred to as Thermatool.) Thermatool manufactured welding machinery, which included *as a component* an impeder, which embodied the process protected by Foster's patent.

"Thermatool in turn sold and leased the welding systems, both those containing the infringing impeder and those without it, to foreign and domestic mill producers for the production of longitudinally welded tubes and pipes. The master found that 'the value of the impeder process, as disclosed in the Foster patent, constitutes a minor but significant fraction of the total value of Thermatool's welding technology'. (Court's footnotes omitted).[10]

"In practical terms, Foster had a patent which obviously required the manufacture of a piece of equipment to make it usable. Foster does not have any licensee who manufactures his patented apparatus or uses his patented process. The parameters of his patent embraced a component in a larger system which utilized his process. He did not have equipment to sell directly to the mill operators. He was hardly in a position to work out an agreement directly with the mill operators. His theoretical licensee, in the formulation of a license agreement, was the manufacturer of the welding equipment who could use his process. And it is precisely in hypothetical negotiation with that prospective licensee that the District Court fixed the reasonable royalty.

"Finally, we note that there are no other factors that would have been considered at the 'suppositious meeting' to determine the reasonable royalty. Since Foster never operated commercially, there are no such factors as Foster's marketing program, Foster's lost sales of non-patented items because of the infringement, or Foster's lost profits."[11]

* * *

"Twenty-six of these [37] units [not the subject of any relief] were sold before April 14, 1959, the issue date of the Foster patent. Eleven of these units were allegedly sold after the issue date.

10. Supra note 1, at p. 3.
11. ibid, at p. 5.

> "With respect to the units sold *before* the issue date of the Foster patent, the sale could not have been at the time, an infringement, or an inducement to infringe. Coakwell v. United States, 372 F.2d 508, 511, 153 USPQ 307, 308-309. The units sold were Thermatool's infringing units. We think that the continued use of the welding systems by the mill operators after the flat payment for the systems when bought, did not later constitute an infringement of the after-issued Foster patent. See Aluminum Extrusion Co. v. Soule Steel Co., 260 F. Supp. 221, 224, 151 USPQ 609, 610-611. All the revenues from these sales were derived by AMF before the Foster patent issued.
>
> "Since Foster has shown no actual damage, we revert to the 'suppositious meeting' after the Foster patent issued, to fix a royalty. We agree with Judge Palimeri 'that the parties would have to agree that no royalty would be payable with respect to infringing equipment sold prior to the issuance of plaintiff's patent'.
>
> "With respect to the eleven units allegedly sold after the issue of the Foster patent, the master found that 'the evidence does not establish that such eleven units have actually been fitted with impeders and operated in the United States for the production of longitudinally welded tube and pipe.' The appellant points to no evidence to convince us that the finding is clearly erroneous.[12]

Several things emerge from these facts. First, the patentee is the *inventor* himself, not an assignee; his only relevant contact with welding technology is as an inventor, not as a manufacturer of welding equipment or a practioner of a welding process.[13] Strangely, the fact that he thus occupied the very role of inventor which the Constitution seeks to foster, served to *diminish* the remedy available to him from what would have been available to him as a manufacturer or processor who was the assignee of his patent.

Second, not only was the manufacturer of "infringing" apparatus that had been sold *before* the issue date of the patent free of any liability for making and selling it[14], but the purchasers of it are free from liability for continued use of it to practice the separately claimed process after the issue date, a mode of proceeding condemned in the cases[15].

12. ibid, at pp. 5-6.

13. He is a patent lawyer, but his contacts in that role with the welding industry, if any, would be clearly irrelevant.

14. Correctly so as far as the record shows.

15. *E.g., Am. Midlings Pur. Co. v. Christian*, Fed. Cas. No. 307 (C.C., D. Minn. 1877),

Third, the patentee was allowed no recovery for units not shown to have been assembled *and* used commercially in the United States, though sold after the issue date.

Fourth, the defendant AMF was the "prime" infringer in the sense that he was the sole commercial source of the infringing *apparatus* and the obvious efficient repository of power to license the process to all users without discrimination, harassment, or a multiplicity of suits. Thus Foster had not sued the "secondary" infringers, but had moved directly against the real party in interest.

Ironically, though one might properly think that each of these four factors was one which suggested a need *for* injunctive relief, each seems to have been taken by the Second Circuit the other way round. At least the opinion candidly and literally acknowledges that it is approving the judicial grant of "a compulsory license".

That compulsory license operates to authorize prospective infringement by a direct infringer (of apparatus claims) who is also a contributory and inducing infringer (of process claims), thus transferring control over commercialization of the invention from the inventor to that infringer. No other decision I know of goes that far. The court's stated grounds are the patentee's "utter failure to exploit the patent on his own". No other decision I know of relies on such grounds alone. The opinion suggests that the plaintiff should be grateful for "half a loaf". No other decision I know of so condescendingly destroys the exclusivity of a patent grant.

The Foster Precedents Analyzed

The Second Circuit cited only the following cases, listed in inverse chronological order:
Royal-McBee Corporation v. Smith-Corona Marchant, Inc.[16]
Nerney v. New York, N.H. & H.R. Co.[17]
American Safety Device Co. v. Kurland Chemical Co.[18]
Hoe v. Boston Daily Advertiser Corp'n.[19], (hereinafter "Hoe II").

None of these cases is authority for the grant of an on-going compulsory license to a primary infringer who has been finally held liable in damages for all of his actionable infringements. None makes reference to the patentee's non-working of the invention as a circumstance relevant to the remedy available to him.

16. 295 F.2d 1, at p. 6, 130 U.S.P.Q. 377, (2 Cir. 1961).
17. 83 F.2d 409, at 410-411, 29 U.S.P.Q. 456. (2 Cir. 1936).
18. 68 F.2d 734, 21 U.S.P.Q. 30, (2 Cir. 1934).
19. 14 Fed. 914 (C.C., D. Mass. 1883).

Royal-McBee related to a patent issued July 4, 1933 on a typewriter margin control which was being used by the successful assignee-patentee in large scale production, and also by at least two large scale infringers, the defendant, Smith-Corona, and another losing defendant, Remington[20]. The District Court found Royal's conduct *vis-a-vis* Smith-Corona to have been such as to forfeit Royal's right even to the *legal* relief of damages for infringements committed prior to the actual filing of the suit. The same conduct was also found to justify the withholding of the *equitable* remedy of injunction for the 33 months remaining before expiration of the patent, but not to justify the denial of damages for continued infringement after the complaint was filed. It was this action of the District Court in giving something other than an all-or-nothing effect to Smith-Corona's estoppel defense which the *Royal-McBee* panel of the Second Circuit approved as a "flexible approach" in 1961. This was scarcely the addition of a compulsory working requirement to the patent statutes of the United States, a step the Congress has consistently refused to take.[21]

Nerney is the familiar freight car case. What is not usually noted is that the defendant railroad, the New Haven, was already under an injunction with respect of its own cars, over which it had such control as to make the enforcement of the ban entirely practical and merely an economic burden on the defendant's private purse. Nerney sought to extend his injunction to forbid the New Haven to accept infringing cars belonging to other companies for transit over the New Haven tracks. It was found to be simply impractical to enforce the ban at the car-interchange points and further to place a substantial burden on the public by disrupting the freight service of wholly innocent shippers. The court was at pains to point out that the principal other infringer was the Pennsylvania against which Nerney had available a complete remedy, including a direct injunction. Thus, the Nerney decision cited is no authority at all for grant of a compulsory license to a primary private infringer. Indeed, it appears to follow the common-sense of Judge Lacombe in *Thomson-Houston Electric Co. v. Union Ry. Co.*, 78 Fed. 365,[22].

American Safety Device is even more remote; it is merely one in a long chain of decisions which decline injunctive relief to a patentee whose patent expires during the pendency of the law suit.

Hoe II might seem better to support the action of the Second Cir-

20. See *Royal Typewriter Co. v. Remington Rand*, 168 F.2d 691 (2 Cir. 1948).
21. See the *Paper Bag Patent Case*, supra note 2.
22. 78 Fed. 365 (C.C., S.D.N.Y. 1896).

cuit in *Foster II*, but careful reading shows this is not so. The patent in suit, No. 131,217, was for a combination of elements comprising a part of a large printing press in daily use producing the Boston defendant's newspaper. The matter arose on a motion for a preliminary injunction, the patent having already been found valid and infringed by a soon-to-be justice of the Supreme Court, Blatchford, C.J., sitting as a circuit judge, *Hoe v. Kahler*[23], (Hoe I). The Boston defendant had bought its machine with notice of Hoe's claim and had been indemnified by its manufacturer. In denying Hoe's motion, Circuit Judge Lowell had this to say:

> "Is this a case for an injunction? The improvement in question is but part of a large machine, upon which the daily newspaper of the defendants is printed, and a change of this part of it, though possible, is difficult, and might embarrass the usual course of business of the company, and would cause much expense to the defendants, or, rather, to their guarantors. Nor would it be of any advantage to the plantiffs, except to coerce a settlement, for they do not use printing machines, but make and sell them in the market. Whatever they are entitled to in the way of damages, amounts, in effect, to a royalty. Their real damage was suffered when this machine was bought, and is not affected by the amount or duration of its use. Acting on this view of the matter, the parties have been negotiating for the payment of a license fee, but are very far apart in their estimate of its amount. The only advantage which the plaintiffs could derive from an injunction, would be to put them in a better situation than they are now in, or than the defendants will then be in for the further conduct of the negotiation. If the case were in such a situation that I could now decide the question of damages, I might, perhaps, order an injunction, unless that amount were paid within a reasonable time."[24]

Clearly, *Hoe II* is not a case sustaining the grant of a compulsory license for the continuation of an infringing course of conduct by a primary infringer, for, as the court observed, "[t]he contest is, in fact, between rival manufacturers". The nominal defendant in *Hoe II* was a newspaper publisher—a relatively innocent bystander or secondary infringer, the interruption of whose use of the invention was in some measure a detriment to the public. And Hoe's competing manufacturer had already been enjoined. *Hoe II* is good authority for *Nerney;* it is not, for *Foster II.*

23. 12 Fed. 111 (C.C., S.D.N.Y. 1882).
24. Supra note 21 at p. 915.

The Hoe II Citations Reviewed

Hoe II is notable if only because the redoubtable Frederick P. Fish, Esq. appeared for the *losing* complainants. Circuit Judge Lowell noted that "[t]he decisions which refuse an injunction, in cases very like the present, have been collected by the diligence of counsel". They are here tabulated chronologically and those cases not later reviewed by Circuit Judge Lacombe in *Campbell Printing Press & Manufacturing Co. v. Maulialtan Railway Co.*[25], are marked with an asterisk:

Barnard v. Gibson,[26] (1849);
Forbush v. Bradford,[27] (1858);
Howe v. Morton,[28] (1860);
Sanders v. Logan,[29] (1861);
Stainthorp v. Humiston,[30] (1862);
Lowell Manuf'g. Co. v. Hartford Carpet Co.,[31] (1864);
Morris v. Lowell Manuf'g. Co.,[32] (1866);
Bliss v. Brooklyn,[33] Fed. Cas. No. 1544, (C.C., E.D.N.Y. (1871);
Wells v. Gill,[34] (1872);
**Amer. Middlings Pur. Co. v. Christian,*[35] (1877);
Colgate v. Gold & Stock Tel. Co.,[36] (1879);
**N.P.R.Co. v. St. P., M. & M. Ry. Co.,*[37] (1880);
M' Crary v. Pennsylvania Canal Co.,[38] (1880);
New York Grape Sugar Co. v. American Grape Sugar Co.,[39] (1882);
**Ballard v. Pittsburgh,*[40] (1882); and

*Rule 93, Rules of Practice in Equity,[41] (1879).

25. 49 Fed. 930 (C.C., S.D.N.Y. 1892).
26. 7 How. 650 (U.S. 1849).
27. Fed. Cas. No. 4930 (C.C., D. Mass. 1858).
28. Fed. Cas. No. 6769 (C.C, D. Mass. 1860).
29. Fed. Cas. No. 12295 (C.C., W.D. Pa. 1861).
30. Fed. Cas. No. 13280 (C.C., N.D.N.Y. 1862).
31. Fed. Cas. No. 8569 (C.C., D. Conn. 1864).
32. Fed. Cas. No. 9833 (C.C., D. Mass. 1866).
33. Fed. Cas. No. 1544 (C.C., E.D.N.Y. 1871).
34. Fed. Cas. No. 17394 (C.C., D.N.J. 1872).
35. Fed. Cas. No. 307 (C.C., D. Minn. 1877).
36. Fed. Cas. No. 2991 (C.C., S.D.N.Y. 1879).
37. 4 Fed. 688 (C.C., D. Minn. 1880).
38. 5 Fed. 367 (C.C., E.D. Pa. 1880).
39. 10 Fed. 835 (C.C., N.D.N.Y. 1882).
40. 12 Fed. 783 (C.C., W.D. Pa. 1882).
41. See beginnings of 97 U. S. (1879). Rule 93 of the Rules of Practice in Equity reads as follows:

> "When an appeal from a final decree in an equity suit, granting or dissolving an injunction, is allowed by a justice or judge who took part in the decision of the cause, he may, in his discretion, at the time of such allowance, make an order suspending or modifying the injunction during the pendency of the appeal, upon such terms as to bond or otherwise as he may consider proper for the security of the rights of the opposite party." (Promulgated January 13, 1879.)

Hoe II and most of its citations were authoritatively reviewed by Judge Lacombe in *Campbell*,[42] Judge Lacombe anticipated Mr. Justice Peckham in *E. Bement & Sons v. National Harrow Co.*,[43] in refusing to follow the ruling of Judge Blodgett in *Hoe v. Knap*,[44] [*Hoe III*].

In *Hoe III* the proposition was advanced, "under a patent which gives a patentee a monopoly, he is bound either to use the patent himself, or allow others to use it, on reasonable terms"[45]. Whether one adopts Judge Lacombe's view, "no authorities for this proposition *** are cited ***, nor is such a construction of the statute *** supported by argument "or Justice Peckham's" '*** The *dictum* found in [*Hoe III*] is not supported by reason or authority [emphasis in original], it is apparent that *Foster II* revives a long-discredited doctrine. Which is not to say that Judge Lacombe was blind to "the principles of equity [35 U.S.C. §283]". In fact, in *Campbell*, he observed:

> "Defendant also insists that injunction should not issue because the infringing couplings now in use by it are used in the service of the public, and to enjoin would be to work great hardship to the public. In Bliss v. Brooklyn, 4 Fish. Pat. Cas. 596, injunction was refused because the hose couplings complained of were necessary for the daily use of the city in the prevention of fires; and there is a long line of authorities to the same effect. There is, however, nothing in the case at bar, beyond the bare assertion of the defendant, to show that an injunction properly regulated as to time may not be obeyed without in any way interfering with the service which defendant renders to the public as a common carrier of passengers. It seems to have experienced no difficulty at all in temporarily withdrawing its locomotives and cars from such service at suitable seasons, for a sufficient length of time to affix the complainant's couplings. Why it may not, in like manner, remove them, does not appear. Complainant may take decree for account and injunction. The terms of the injunction, providing from how many cars and locomotives the infringing couplings shall be removed each week, may bet settled on notice,[47] . . .".

42. Supra note 25.
43. 186 U. S. 70 (1902).
44. 27 Fed. 204 (C.C., N.D. Ill. 1886).
45. id. at p. 212.
46. Supra note 25 at p. 935.
47. ibid.

He followed the same pattern in equitably shaping injunctive relief in *Thompson-Houston*[48], and in *Westinghouse Air Brake Co. v. Great Northern Ry. Co.*[49]

One of the cases cited in *Hoe II*, not reviewed in *Campbell*, is *Ballard v. City of Pittsburgh*.[50] This points up a proposition as to which there is no substantial question, namely, that public services will not be interrupted by patent injunctions shutting off the continued use of substantially completed facilities. In *Ballard*, a patented wooden pavement had been installed in the defendant city's streets. The court rightly declined to order it torn up. This, in no sense, authorized Pittsburgh to build like streets in the future. The clear rationale of this line of cases is no doubt the reason the Second Circuit, in *Foster II*, made no reference to the celebrated case of *City of Milwaukee v. Activated Sludge, Inc.*[51] By extension, the courts have also declined to cause gross economic waste by ordering the scrapping or disuse of existing devices in private hands, *e.g., Landis Tool Co. v. Ingle*[52].

Another *Hoe II* case not reviewed in *Campbell* is *Am. Middlings Pur. Co. v. Christian*[53]. This points up the important procedural matter of the status of patentee's established position on validity and infringement. Only if these are virtually ironclad will an injunction issue before final decree making them certain, but in lieu of injunction a patentee may well be protected by a bond and a direction for a periodical report of the accused infringing acts. That this is, indeed, acting "in accordance with the principles of equity [35 U.S.C. §283] is shown by the third *Hoe II* citation not reviewed in *Campbell, N. P. R. Co. v .St. P., M. & M. Ry. Co., supra,* where a like bond requirement in lieu of injunction was ordered in a non-patent case. And see also Rule 93 of the Rules of Equity[54].

It would overextend the bounds of this paper to review all the decisions I have read or noted as being of real or seeming relevance to the correctness of *Foster II*. I simply repeat my initial observation that *Foster II* is a precedent-shattering revolution the bounds of which I cannot guess. As we have seen from the quoted passages

48. Supra note 22.
49. 86 Fed. 132 (C.C., S.D.N.Y. 1898).
50. Supra note 40.
51. 69 F.2d 577, 21 U.S.P.Q. 69, (7 Cir. 1934).
52. 286 Fed. 5, (3 Cir. 1923).
53. Supra note 35.
54. Supra note 41.

dealing with the *Foster II* facts, the Second Circuit is not proceeding on the assumption that Foster's invention was vital to the U. S. welding industry or even to the defendant manufacturer. There is no logical reason to limit the rationale of *Foster II* to cases where an entire patent is not being exploited. Why does it not justify a compulsory license under an unexploited claim? Similarly, where a patent is part of a portfolio of related patents, why does *Foster II* not justify a compulsory license under Patent A even though the patentee is exploiting a competitive substitute covered by his Patent B? Those are the reasons why I reach the following conclusion.

Conclusion

It is the thrust of this article that *Foster II* demonstrates that the courts are succumbing to the current pressures for compulsory licensing in a manner materially to reshape the patent system and that, therefore, legislation is required to prevent a United States patent from becoming, by judicial fiat, nothing materially different in effect from a Soviet "inventor's certificate". Hence, I urge that Title 35, United States Code, be amended by adding thereto a section 294, as follows:

§294. Compulsory Licensing

"(a) (1) At any time more than three years after the issuance of a patent and more than four years after the filing of the application for the patent, any person may, in accordance with the requirements of this section, commence a civil action against a patentee to obtain a compulsory license under such patent.

"(2) The venue of a civil action commenced pursuant to the foregoing sub-section shall be the district court for the district in which the patentee, if a natural person, resides or in which the patentee, if a corporation, is incorporated or has its principal place of business or, in the case of a non-resident patentee, as provided in section 293 of this title.

"(b) The complaint in the action shall set forth the nature and purpose of the use which plaintiff intends to make of the license, the steps taken by plaintiff to obtain a voluntary license, and statements of the expected consequence of failure to obtain the license and the expected result of grant of the license.

"(c) Within ten days after service of the summons and complaint, plaintiff shall serve a copy thereof on each exclusive licensee under the patent whose license is recorded in the Patent Office who shall have the right to intervene in the action.

"(d) Plaintiff shall be entitled to an order directing the patentee to grant a non-exclusive license to plaintiff, if:

"(1) the invention covered by the patent is of primary importance in a general field of endeavor;

"(2) for a period of at least three years prior to the commencement

of the action, there has existed a public need for the invention which has not been reasonably satisfied by the patentee, his licensees (including prior compulsory licensees), and alternative products or processes;
"(3) plaintiff has both the requisite resources and intent to market goods or services of good quality under the license sought which will satisfy the public need;
"(4) plaintiff cannot otherwise obtain a license on terms which the court deems to be reasonable for the use of the invention intended to be made by plaintiff; and
"(5) plaintiff has not for six months before commencement of the action, or during the action, committed acts which he knew or reasonably should have known were acts of infringement of the patent.

"(e) the court shall not order the grant of any license pursuant to this section for any purpose other than stated in the complaint; nor shall any court order the grant of any license under a patent already the subject of a license ordered under this section without action commenced pursuant to this section and separate findings as provided herein.

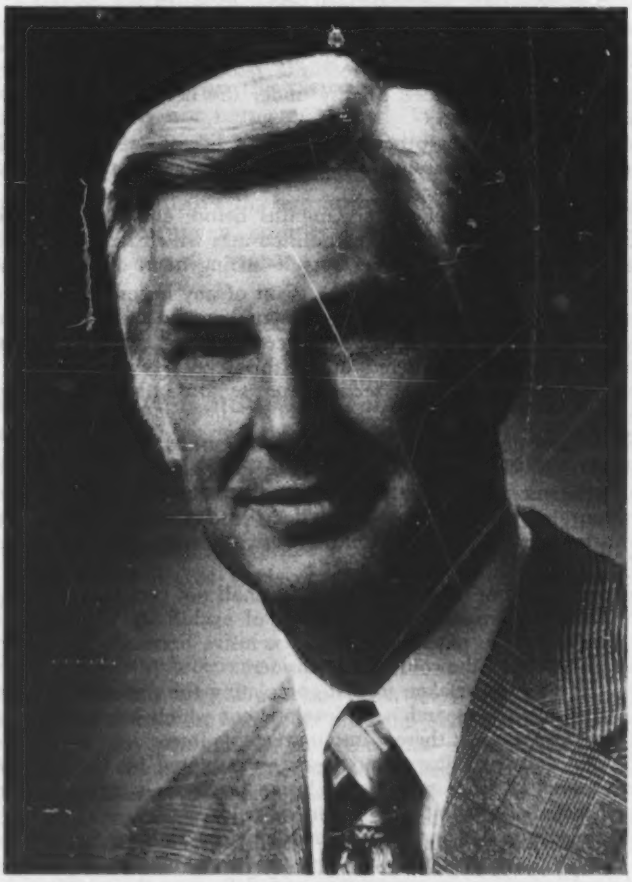
"(f) In any decree ordering a license hereunder, plaintiff shall be ordered to pay compensation therefor to the patentee and any then exclusive licensee under the patent in such manner and at such times as the court may find reasonable under the circumstances, and in such allocation between patentee and exclusive licensees as the court deems just.

"(g) The amount paid by the licensee shall not be less than reasonable for use of the invention and for loss of exclusivity which the license imposes upon the patentee and his exclusive licensees. In determining the compensation the court shall consider:
"(1) the risks undertaken in first completing the patented invention;
"(2) the cost of research and development which led to the invention and the development thereof into marketable form;
"(3) the costs of failures and losses encountered by the patentee, his predecessors in title, and his exclusive licensees in other research or development efforts in the same general field;
"(4) the efforts and expenditures made by the patentee, his predecessors in title, and his exclusive licensees in developing the market for the patented invention, in prosecuting and defending the patent right, and in defending actions for licenses under this section; and
"(5) the savings achievable by the proposed licensee through use of the invention.

"(h) The order of the court shall specify the duration of any license ordered under this section, and shall specify such other terms and conditions as the court deems advisable to protect both the public interest and the property interest of the patent owner and his exclusive licensee in the invention".

All other statutory provisions for compulsory license under United States patents except 28 U.S.C. §1498 (a) should be repealed. The legislative history of this proposal should make it plain that *Foster II* is being overruled, but that §283 is being continued and Judge Lacombe's application of its principles in *Campbell* are being approved.

B. R. PRAVEL



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SAY "NO" TO MORE COMPULSORY LICENSING STATUTES

BY B. R. PRAVEL

Introduction

The United States Supreme Court has, in all of its dignity and rightful authority, declared for posterity:

> "That a patent is property, protected against appropriation both by individuals and by the government, has long been settled".[1]

In any proposal for a compulsory license statute, whether it be general, (i.e. one intended to cover all situations where licensing of patents could be forced against the will or desires of the patent owner), or specific, (i.e. where the patent owner could be forced to license his patents only for a selected situation, such as non-use, excessive profits etc.), the basic recognition of a patent as property is essential. In this area, the United States Supreme Court stands as the bulwark against the waves of destruction often pounding against this fundamental which has its origin in nothing less than the United States Constitution.[2]

Compulsory licensing in any form is an in-road on such property right.[3] No doubt there are now, and have been for many years past, those who regard any kind of private ownership of property as evil, and there are others, who, even though they would not go so far as to condemn the ownership of all private property, believe that, at least, the private ownership of patents cannot be tolerated. The comments in this article are directed to those two groups, and to a third group as well, which has sincere proponents of the patent system, who have mistakenly become convinced that it is necessary to "pacify" the first two groups by proposing compulsory licensing statutes. To that group, it is the author's hope that this article will say, as in the famous words of John Paul Jones, "Don't give up the ship. We have just begun to fight."

The fight is not of recent vintage.[4] In *Hartford-Empire*[5] the Supreme Court observed:

1. *Hartford-Empire Co. v. United States*, 323 U.S. 386, 415, 64 USPQ 18, (1945).
2. *U. S. Constitution*, Art. I, sec. 8, clause 8.
3. James M. Wetzel, Can Patent Properties Be Redistributed Through Compulsory Licensing?, 1 APLA Quarterly Journal pp. 184-191, No. 3, (Summer 1973).
4. S. Chesterfield Oppenheim, "Cases on Federal Anti-Trust Laws", (1948), pp. 494-495.

"Congress was asked as early as 1877, and frequently since, to adopt a system of compulsory licensing of patents. It has failed to enact these proposals into law."

Also, as observed in the *Hartford-Empire* case, the Temporary National Economic Committee (TNEC) made a Final Report[6] which recommended compulsory licensing legislation "which will require that any future patent is to be available for use by anyone who may desire its use and who is willing to pay a fair price for the privilege." From that extreme, which would be completely destructive of the value of patents, we find a number of currently proposed compulsory licensing bills of varying degrees of specificity and scope. The primary thesis of this article is that compulsory licensing statutes are not necessary, even for specific situations wherein compulsory licensing would be constitutional, because in those rare instances, the courts can adequately provide for compulsory licensing under the strictures of the United States Constitution and within the framework of judicial precedent. It should be emphasized that the fact that under certain conditions compulsory licensing may be proper does not in any sense establish the desirability for a compulsory licensing statute or statutes, as has been argued by some proponents recently for a general licensing statute.[7] On the contrary, the presence of adequate safeguards through judicial control of patents is submitted to negate any desirability or need for a general compulsory licensing statute, or even specific statutory compulsory licensing provisions. The concern which we should all have is that expressed by Judge Frank in a slightly different context, but with equal applicability when compulsory licensing of patents is concerned:

"We should not throw out the baby with the bathwater."

In other words, we need to be certain that neither Congress nor the courts "throw out" or destroy the patent system with its value to the economy of the United States by attempting to correct abuses, imagined or real, of patents by some patent owners.

Constitutional Limitations Re "Taking" Private Property

Before considering patents specifically, a brief look at some of the controlling constitutional limits on property in general must be made.

5. Supra, note 1, at p. 401 or 389.

6. U. S. Congress, Senate, *Final Report and Recommendations of the Temporary National Economic Committee*, S. Doc. 35, 77th Cong., 1st sess., 1941, pp. 36,37.

7. U.S., Congress, Senate, Hart Bill, S. 2287, 93rd Cong., 1st sess.; Morton, article at p. 182.

The only constitutional provision for "taking" private property is that of eminent domain as provided for in the United States Constitution, Fifth Amendment, the pertinent portion of which reads:

> ". . . nor shall private property be taken for public use, without just compensation."

In the usual case of a "taking" of private property under eminent domain, the taking is by the (a) government for (b) "public use".[8] Normally, there is "one complete taking and one complete accrual of the right of the owner to compensation".[9] When private property is taken by the government under eminent domain, the Constitution further provides for the protection of "due process".[10] The courts have had numerous occasions to spell out the requirements of "due process," such as that of "notice reasonably calculated, under all the circumstances, to appraise interested parties of the pendency of the action and afford them an opportunity to present their objections."[11] With respect to the requirements of "due process", when the government is exercising its powers of eminent domain, there are clearly established legal guidelines and precedents. The courts are likewise experienced and well adapted for determining the "just compensation" for the private property taken by the government for public use.[12]

Under the mantle of "police power", Justice Douglas, speaking for the Supreme Court, extended the scope of eminent domain in *Berman* v. *Parker*[13] to permit the District of Columbia to take a man's department store in a slum area under an area redevelopment statute. Although the store owner made the argument that the "taking" was unconstitutional because it was "a taking from one businessman for the benefit of another businessman", the argument was rejected on the broad basis of the public welfare. Although the case is subject to broader ramifications, the property was within a large blighted area and Congress had elected to attack the problem on an area basis rather than a structure-by-structure basis, so limitation is implicit in the decision—namely, in the absence of the public need to deal with the whole area as an entity, it would *not* have been constitutional to have taken the property from one person for the benefit of another person.

8. *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 43 S. Ct. 158, 160 (1922): "The protection of private property in the Fifth Amendment presupposes that it is wanted for public use. . .".

9. *Irving Air Chute Company, Inc. v. U. S.*, 93 F. Supp 633, 87 USPQ 246 (Ct. Cl. 1950).

10. *U.S. Constitution*, Fifth Amendment.

11. *Mullane v. Central Hanover Bank & Trust*, 339 U.S. 306, 70 S. Ct. 652, 94 L. Ed. 865 (1950).

12. *United States v. Pewee Coal Co., Inc.*, 341 U.S. 114, 71 S. Ct. 670 (1951).

13. 348 U.S., 26, 75 S. Ct. 98, (1954).

However, since "police power" is frequently referred to in cases dealing with eminent domain as well as other constitutional law cases, the applicability of that power is likewise pertinent before dealing specifically with the compulsory licensing of patent questions.

The scope of "police power" as exercised under the Constitution is broader than that of eminent domain and it is universally conceded to include everything essential to the public safety, health, and morals, and to justify the destruction or abatement, by summary proceedings, of whatever may be regarded as a "public nuisance."[14] The police power extends to the United States within the field of interstate commerce.[15] As explained in the *Speert* case:

> "While the Federal government does not have the same police power as is reserved to the states, nevertheless, once a general subject is properly within the scope of the powers granted in the Constitution to the Federal government, that government has powers to prescribe police regulations concerning that subject, and these powers are as broad as those which a state government possesses concerning subjects within its reserved powers.

The plethora of court decisions dealing with the application of the police power in various situations confirms the wide experience and guidelines available in this area from the court decisions.

> *"Congress* can certainly regulate interstate commerce to the extent of forbidding and punishing the use of such commerce as an agency to promote immorality, dishonesty or the spread of any evil or harm to the people or other states from the state of origin. In doing this it is merely exercising the police power, *for the benefit of the public.*"[16]

The exercise of the police power by Congress is "for the benefit of the public." The latitude with respect to the police power is, however, judicially circumscribed so that it is used to "protect" the health, safety and morals of the community and to prevent the "spread of any evil or harm." In other words, regulation under the police power has never been so broadly construed by the Supreme Court to permit regulation purely on the basis of speculative public benefit and traditionally has extended to such items as regulation

14. *Lawton et al v. Steele*, 152 U.S. 133, 14 S. Ct. 499, (1894); *Goldblatt v. Town of Hempstead, New York*, 369 U.S. 59, 82 S. Ct. 987, (1962).

15. *Brooks v. United States*, 267 U.S. 432, 45 S. Ct. 345 (1925); *Speert et al v. Morgenthau et al*, 116 F. 2d 301 (D. C. App. 1940).

16. Supra, note 15, *Brooks v. United States.*

of liquor,[17] prostitution,[18] fertilizer works,[19] and brick yards.[20]

In the landmark case of *Pennsylvania Coal Co. v. Mahon*,[21] wherein the majority opinion was rendered by Justice Holmes in a direct confrontation with the renowned Justice Brandeis in dissent, the following statement limiting "police power" rings out with clarion sound as a warning which is applicable to the particular topic hereunder consideration, namely compulsory licensing:

> "The protection of private property in the Fifth Amendment presupposes that it is wanted for public use, but provides that it shall not be taken for such use without compensation. A similar assumption is made in the decisions upon the Fourteenth Amendment. *Hairston v. Danville & Western Ry.* 13 Ann. Cas. 1008. When this seemingly absolute protection is found to be qualified by the police power, the *natural tendency of human nature is to extend the qualification more and more until at last private property disappears.* But that cannot be accomplished in this way under the Constitution of the United States." (Emphasis added).

Constitutional Limits Re "Taking" of Patents

Patents stand on the same footing as other private property with respect to the constitutional limitations applicable to the "taking" of such property. The United States Supreme Court in the historic case of *James v. Campbell*,[22] correlated the patent property right to other property rights insofar as the constitutional protection is concerned:

> "That the government of the United States, when it grants letters patent for a new invention or discovery in the arts, confers upon the patentee an exclusive property in the patented invention which cannot be appropriated or used by the government itself, without just compensation, any more than it can appropriate or use, without compensation, land which has been patented to a private purchaser, we have no doubt. The Constitution gives to Congress power "to promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries,' which could not be effected if the government had a reserved right to

17. *Mugler v. Kansas*, 123 U.S. 623, 679 (1887).
18. *L'Hote v. New Orleans*, 177 U.S. 587 (1900).
19. *Fertilizing Co. v. Hyde Park*, 97 U.S. 659 (1878).
20. *Hadacheck v. Sebastian*, 239 U.S. 394 (1915).
21. 260 U.S. 393, 43 S. Ct. 158, (1922).
22. 104 U.S. 356, 357.

publish writings[23] or to use such inventions without the consent of the owner."

Some proponents of compulsory licensing have suggested that since the patent is primarily for the "public benefit", the patentee is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible[24] and others have urged that the patentee should be required to license all comers at reasonable royalties.[25] Fortunately, for the patent system and for the American economy, the United States Supreme Court in the *Continental Paper Bag Company* case replied to that position by stating, "We dissent entirely from the thought thus urged", and Congress has likewise consistently refused to adopt a general statute for the compulsory licensing of patents.[26] Of course, some specific compulsory licensing legislation has been passed by Congress,[27] which will be discussed later in the article. Likewise, the general eminent domain statute relating to the use of patents by the government, 28 U.S.C. 1498, will be considered later.

It is submitted that although patents deal with the intangible (product of a person's mind) rather than the tangible (land, buildings, personal property), the nature of the property *right* is the same and should be governed under the law by the same considerations, and particularly the constitutional limitations with respect to the taking of property. Even though a patent is "conditioned by a public purpose,[28]" that public purpose is fulfilled by the inventor disclosing to the world his invention as his *quid pro quo* for the exclusive rights to that invention under the patent grant. The public is served by having available to it the knowledge of that invention in the disclosure of the patent itself. The contractual obligation of the government in granting the patent is that the rights to that invention shall be "exclusive" as provided for in the Constitution and anything less than that, whether it be in the original grant or in a subsequent forced compulsory licensing, falls short of the Constitutional incentive intended by the framers of the Constitution.[29] Those that urge compulsory licensing on a broader base than the constitutional limitations with respect to the "taking" of other

23. *Supra*, note 3.
24. *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405, 1908 CD 694 February 15, 1974. 492 F2d 1317 182 USPQ 1 (2nd Cir. 1974).
25. Oppenheim, *supra*, note 4.
26. *Hartford-Empire Co. v. United States*, *supra*, note 1.
27. Atomic Energy Act, 42 U.S.C. 2183; Clean Air Act, 42 U.S.C. 1857, Sec. 308; Tennessee Valley Authority Act, 16 U.S.C. 831r.
28. *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944).
29. C. Warren, The Making of the Constitution, (Boston, 1928), pp. 625-6, 702.

property, are essentially condemning the monopoly or exclusive nature of patents with the popular appeal of "public benefit." Such an approach is obviously mere confiscation of private property which the inventor has in good faith made available to the world in exchange for such property and finds no support in any decided opinion by the U.S. Supreme Court. Even when framing anti-trust remedies for abuses of patent rights, the courts have been careful to limit the decrees so that they simply restore competition and prevent abuse, without attempting to confiscate the patents.[20]

Aside from the constitutionality of the eminent domain concept embodied in the patent eminent domain statutes,[21] it is quite surprising to find that very little has been discussed or written with respect to whether or not any other type of compulsory licensing of patents by statute is constitutional. One writer[22] who provided us with a very scholarly historical study with respect to the meaning *intended* by the word "exclusive" in Article I, section 8, clause 8, relating to the patent grant, concludes that the constitutional provision "to promote the progress of science and useful arts" was purposely made "exclusive", but he believed that was the *utmost* limit to which the framers of the Constitution were willing to go, and he expressed his opinion that less than exclusive rights in a patentee would be constitutional. However, the following quote from that Article is more convincing, and represents the prevailing view that the word "exclusive" was *intentionally* inserted in the Constitution to provide the necessary incentive to inventors:

> "In arguing that the use of the term 'exclusive right' referred to in Article I, Section 8 of the Constitution, would render a compulsory licensing system or cancellation of a patent for non-use unconstitutional, stress has been laid on the fact that in Madison's draft, submitted to the Convention on August 18th, 1787, the phrase used was "to encourage by premiums and provisions the advancement of useful knowledge and discovery', furthermore, that Charles Pinckney, on the same date, proposed 'to grant patents for useful inventions', while the phraseology as finally adopted on September 5th, 1787, by Judge Brearley's Committee on Postponed Matters, read 'by securing' for limited times to *** inventors, the 'exclusive' right to their respective *** discoveries." From this change in phraseology it has been argued by a very learned authority on patent law, Mr. Karl Fenning that:
>
> 'It is significant, therefore, that in framing the Constitution in its final form, the words "Patent" and 'Copyright" were not used, possibly lest the power be limited tc the particular forms

of conditional exclusive rights which were at that time known as "Copyrights and Patents".'

"From the 'words finally chosen for the Constitution', Mr. Fenning deduces that 'these seem to allow no limitations on the 'exclusive' right such as requirements for working or compulsory licensing.' "[33]

Perhaps it might be better to allow the constitutionality question with respect to the compulsory licensing of patents to rest strictly upon the constitutional requirement of Article I, Section 8, that the patent right must be "exclusive", but the author has the nagging belief that this is not the entire answer and would not be the only basis considered by the Supreme Court should this matter reach that level for a decisive judgment. For one thing the Supreme Court itself has authorized compulsory licensing of patents where there has been an abuse of the patent rights, such as by an anti-trust violation, beginning with the *Hartford-Empire* case.[34] Apparently, the constitutionality has been assumed by the Supreme Court and instead, the constitutionality focus has been upon the issue of whether or not the compulsory licensing should be "royalty-free" or on a reasonable royalty basis. In *United States v. National Lead Co., et al*,[35] the Supreme Court held that "on the facts before us" the issuance of a royalty-free license under the patents was not justified to effectively enforce the Anti-Trust Act. In 1952, the Supreme Court stated in *Besser Mfg. Co., et al v. United States*,[36] that "compulsory patent licensing is a well-recognized remedy where patent abuses are proved in anti-trust actions and it is required for effective relief." Presumably, the constitutional basis for such compulsory licensing by the courts must rest under the judicial power in "equity" extended in Article III, Section 2, discussed in a later section.

Further, a more in-depth view of the matter is forced upon us also by the "police power" authority available to Congress, and the extent of its applicability to, and limitations on, the compulsory licensing of patents.

30. See, for example, *United States v. National Lead Co.*, 332 U.S. 319, 67 S.Ct. 1634, 91 L. Ed. 2077 (1947); *United States v. General Electric Co.*, 115 F. Supp. 835, 843, 844 (D.C.N.J., 1953).
31. 28 U.S.C. 1498; 16 U.S.C. 831r, discussed *infra*, p. 200.
32. Schecter, "Would Compulsory Licensing of Patents Be Unconstitutional?" 22 Va. L. Rev. 287, (1936).
33. *Ibid.*, pp. 308-309.
34. Supra, note 1.
35. 343 U.S. 444, 447, 72 S. Ct. 838, 841 (1952).

Court-Imposed Compulsory Licensing of Patents

In a recent non-patent case, the scope of equity powers in shaping equity decrees and the guiding principles behind such equity powers, has been spelled out for us[37]:

> "In shaping *equity* decrees, the trial court is vested with broad discretionary power; appellate review is correspondingly narrow. Swann v. Charlotte-Mecklenburg Board of Education, 402 U.S. 1, 15, 27 n. 10, 91 S. Ct. 1267, 1275, 1281, 28 L. Ed. 2d 554 (1971). Moreover, in *constitutional* adjudication as elsewhere, equitable remedies are a special blend of what is necessary, what is fair, and what is workable. "Traditionally, equity has been characterized by a *practical flexibility* in shaping its remedies and by a facility for adjusting and reconciling public and private needs.' Brown v. Board of Education (II), 349 U.S. 294, 300, 75 S. Ct. 753, 756, 99 L.Ed. 1083 (1955). Mr. Justice Douglas, speaking for the Court, has said,
>
> > 'The essence of equity jurisdiction has been the power of the Chancellor to do equity and to mould each decree to the necessities of the particular case. Flexibility rather than rigidity has distinguished it. The qualities of mercy and practicality have made equity the instrument for nice adjustment and reconciliation between the *public interest and private need* as well as between competing private claims.' Hecht Co. v. Bowles, 321 U.S. 321, 329-330, 64 S.Ct. 587, 592, 88 L. Ed. 754 (1944). (Emphasis added).
>
> "See also Holmberg v. Armbrecht, 327 U.S. 392, 396, 66 S.Ct. 582, 584, 90 L.Ed. 743 (1946).
>
> "In equity as nowhere else courts eschew rigid absolutes and look to the practical realities and necessities inescapably involved in reconciling competing interests, notwithstanding those interests have constitutional roots."

Equitable remedies are likewise cognizant of the "public interest involved" and of the "public policy" of statutory provisions within their jurisdiction.[38]

A striking example of the exercise of the equity powers of the Federal court is found in the typical remedies for antitrust violations

37. *Lemon v. Kurtzman*, ..U.S..., 93 S.Ct. 1463, 1469 (1973).
38. *United States v. Morgan et al*, 307 U.S. 183, 59 S.Ct. 795 (1939).

which include the three "D's" of antitrust enforcement, divestiture, divorcement, and dissolution.[39] The statutory basis for the jurisdiction of the Federal Courts under the antitrust laws is under the various antitrust statutes such as the Sherman Act, which has a very broad delegation of power, vesting the District Courts of the United States with jurisdiction "to prevent and restrain violations of this Act." In view of such general language, the relief accorded under the Sherman Act clearly rises out of the inherent equity powers of the Federal Courts and further on the basis of regulating "interstate commerce" under the Constitution.[40]

Going back to the *Hartford-Empire* case,[41] the Supreme Court established the use of compulsory patent licensing as an equitable remedy where there had been an antitrust violation. In that case, the government sought to have the patents forfeited or cancelled because of the antitrust violations, and instead, the Court limited its punishment to the requirement for compulsory licensing "at standard royalties and without discrimination or restriction." In a sense, the *Hartford-Empire* case represents a clash of the public policy of the patent laws and the public policy of the antitrust laws. The dominant standard in both is the general public interest or welfare. Both bodies of law are aimed at the protection of the public interest in competitive technology and in competitive trade and commerce.[42] The limitations on the right of the patent-holder, such as the requirement for compulsory licensing, are reached within that broad scope of general policy of the patent laws and the antitrust law, which is capsulated in the following quotation from the *Hartford-Empire* case (pages 442-453):

> " 'The general policy has been to restrict the right of the patent-holder rigidly within the terms of his grant and, when he overreaches its boundary, to deny him the usual protections of the holder of property. That this ordinarily has been done in infringement suits or suits for cancellation does not qualify the fact or the policy. On the other hand, the anti-trust statutes have received a broad construction and corresponding enforcement, where violation has been clearly shown. When the patent holder so far overreaches his privilege as to intrude upon the rights of others and the public protected by the anti-trust legislation, and does this in such a way that he cannot further exercise the privi-

39. Malcolm A. Hoffman and Arthur I. Winard, Hoffman's Antitrust Law and Techniques, Vol. I, (1963), pp. 407-425.
40. *Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 602, 71 S. S. Ct. 971 (1951).
41. *Supra*, note 1.
42. Oppenheim, *supra*, note 4.

lege without also trespassing upon the rights thus protected, either his right or the other person's, and the public right, must give way. It is wholly incongruous in such circumstances to say that the privilege of the trespasser shall be preserved and the rights of all others which he has transgressed shall continue to give way to the consequences of his wrongdoing.' "

In the *National Lead* case, cited *supra*, the Supreme Court recognized the "issue of the constitutionality" with respect to requiring a royalty free compulsory license, but specifically side-stepped the issue. The Supreme Court apparently assumed so long as "reasonable royalties" were required for payment, there was no constitutional issue. The Supreme Court did not deal with the more difficult issue, namely, whether the transfer of private property from one individual to another, can be categorized as the taking of private property for "public use." It might be argued that compulsory licensing places a product into use by the public and this makes it a "public use," but that kind of logic or reasoning could justify the requirement by the government for the transfer of any private property from one individual to another so long as the property being transferred is used or sold to the public for use. More specifically, in the field of patents, if such rationale were carried to its logical conclusion, it would mean that the "exclusive" right contemplated by the Constitution for patents would be destroyed.

In addition to the antitrust cases, wherein compulsory licensing of a patent was the remedy, the Second Circuit has recently required a compulsory license on the basis of the patent owner being a non-user.[43] In that case, the patentee was a patent attorney who "never engaged in any manufacturing or other business connected with the patent in suit." The master appointed by the District Court had applied the "willing licensor-willing licensee" test to ascertain a reasonable royalty for the compulsory license which was ordered with respect to future infringement. There was a decided difference of opinion between the patentee and the infringer as to the basis and the amount of the royalty which should be paid by the infringer, and the Second Circuit concluded that the patentee was not within his rights because the patent "is not intended as a club to be wielded by a patentee to enhance his negotiating stance." The entire premise of the Second Circuit was on the basis of the equities and they concluded that it would be inequitable to impose irreparable hardship on the infringer by injunction without any concomitant benefit to the patentee. They of course overlooked the fact that the patentee

43. *Foster v. American Machine & Foundry Co.*, (Second Circuit Case 73-1822), decided February 15, 1974.492 F2d 1317, 182 USPQ 1 (2nd Cir. 1974).

might get a much greater benefit in the form of royalties from someone else who would be licensed by the patentee. They concluded that the compulsory license was a "benefit to the patentee" and that "To grant him a compulsory royalty is to give him half a loaf. In the circumstances of his utter failure to exploit the patent on his own, *that seems fair.*"

As an aside, the *Foster* decision, in approving the compulsory licensing of the patent, relied primarily upon *Nerney v. New York, N.H. & H.R. Co.*[44]; *American Safety Device Co. v. Kurland Chemical Co.*[45]; and *Royal-McBee Corp. v. Smith-Corona Marchant, Inc.* The *Nerney* case involved a denial of an injunction which would have required the defendant to notify other infringers to refrain from sending railroad cars having the infringing brakes to the defendant's trackage. The court specifically recognized that the plaintiff might properly proceed against the other infringers, but such denial did not result in a compulsory licensing to the defendant. The *American Safety Device* case was a situation in which the patent had expired and the patentee was attempting to obtain an injunction to restrain the further use of the infringing machines made during the life of the patent. The court refused the injunction because there was a plain and adequate remedy at law since damages would suffice. The *Royal-McBee* case was a case in which compulsory licensing was ordered on the basis of "the relatively short period remaining of the life of the patent." The *Royal-McBee* court observed with respect to such award of a compulsory license:

> "We find this flexible approach towards a difficult problem of balancing equities in patent litigation most desirable, and we think the remedy was fully warranted by the facts of this case."

The "flexible approach" was also emphasized in the *Foster v. American Machine & Foundry Co.* case,[47] but it is significant that the cases relied upon by the *Foster* court did not order compulsory licensing merely because of a non-use by the patentee. Such decision raises constitutional questions as to the scope of the equity power of the courts, which is perhaps to be resolved by the United States Supreme Court if the petition for writ of certiorari is granted. Suffice it to say, that even Congress has not seen fit to pass any legislation which would require compulsory licensing of a patent merely because of non-use, and as discussed hereinafter, such power would appear to

44. 83 F. 2d 409, 410-411, 29 USPQ 456 (2nd Cir. 1936).
45. 68 F. 2d 734, 21 USPQ 30 (2nd Cir. 1934).
46. 295 F. 2d 1, 6, 130 USPQ 377 (2nd Cir. 1961).
47. *Supra*, note 43.

be beyond the constitutional authority granted to Congress. Although the equity powers of the courts are not as well-defined as the powers of Congress under the Constitution, certainly it would be inconsistent for an equity court to have the power to take private property on any broader scope than permitted under the Constitution for Congress. The Fifth Amendment limitation should certainly be applicable to the judiciary as well as to Congress, so mere non-use of a patent by a patentee should not justify compulsory licensing by either the judiciary or Congress.

Despite the undesirable result which was reached by the Second Circuit in the *Faster* case, those who would advocate more legislation with respect to compulsory licensing should agree that the *Foster* case does emphasize the fact the courts are in a position to use the "flexible approach," so long as they are within the constitutional limits. Thus, where compulsory licensing is a proper remedy, the courts are in a position to require compulsory licensing. On the other hand, if the courts exceed their constitutional authority by requiring compulsory licensing in a situation which amounts to the taking of private property for use by another, hopefully there is likewise a remedy to the patentee through the protection of the courts. Certainly, the court procedures are available for the patentee to assert his position and claim his rights if they are abused under the guise of equity powers.

The courts have also exercised their equity powers with respect to patents in other instances, such as the renowned *Activated Sludge* case,[48] which is frequently cited by advocates of compulsory licensing as a justification for more compulsory licensing. However, that case is actually an eminent domain case in which the city of Milwaukee was the governmental body acting within the scope of its obligations to protect the welfare of its citizens. It was recognized in that case that both parties had strong equities, but "there are many others who are indirectly concerned whose equities are even stronger than those of the parties." The court observed that if the injunction preventing patent infringement was made permanent, it would close the sewage plant, leaving the entire community without any means for the disposal of raw sewage other than running it into Lake Michigan, thereby polluting its waters and endangering the health and lives of that and other adjoining communities. The health and the lives of more than one-half million people were involved. Even if such *Activated Sludge* case is not recognized as an eminent domain case, it certainly must be recognized as a case in which the equity

48. *City of Milwaukee v. Activated Sludge, Inc.* 69 F. 2d 577, 21 USPQ 69 (7th Cir. 1934).

powers are properly exercised within the scope of those "police powers" normally available for the public welfare. It is believed that the *Activated Sludge* case represents a proper use of compulsory licensing when needed for equitable relief, but within the constitutional requirements. Where there has been a misuse of the patent, the courts have fashioned the remedy of refusal of relief, at least until the misuse has been discontinued.[49] Where there has been a prolonged refusal to make available a patented product or process, such as in *Vitamin Technologists v. Wisconsin Alumni Research Foundation*,[50] the courts have similarly concluded that the patent is unenforceable in the public interest. Although the *Vitamin Technologists* case was decided on the basis of the patent being invalid for other reasons, the court recognized that the question was raised as to the "public interest in restoring the health of the afflicted". The *Continental Paper Bag* case[51] was discussed with respect to the holding in that case that the suppression of the use of the patent was the right of the holder of the patent monopoly. The distinction in the case of the refusal of the patentee to license the use of his patent to protect the health of great numbers of the public, as compared to the refusal to license the patent for paper bags was recognized by the court. This type of recognition is important and is a fundamental advantage in having the courts determine when compulsory licensing should be required, rather than having statutory provisions for compulsory licensing which would attempt to cover across-the-board situations. Thus, the non-use of a patent on a paper bag is certainly a far cry from the non-use of a valuable vitamin which should have been used for its health value to the public, particularly where the showing was that the patent owner literally refused to offer such product to the public. This of course may also require a distinction between different types of drugs, which would be virtually impossible for Congress to define in terms of which ones would be subject to a compulsory license. Thus, unless the drug was one which had been suppressed for an excessive period of time without cause and such a drug was necessary to protect the health of great numbers of the public, compulsory licensing would not be justified. Again, the flexibility and the desirability of leaving the matter of compulsory licensing with the courts is evidenced by the history of the judicial process in this area.

Summarizing briefly with respect to the compulsory licensing required under the equity powers by the courts, it should first

49. See for example: *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 60 USPQ 21 (1944); *Morton Salt Co. v. Suppiger Co.*, 314 U.S. 488, 52 USPJ 30 (1942).
50. 146 F. 2d 941, 945 (9th Cir. 1944).
51. *Supra*, note 24.

be noted that compulsory licensing of a patent has not been required by the courts except where there has been some type of activity such as an anti-trust violation, misuse or aggravated abuse, other than in the recently decided *Foster* case[52], which is still hopefully subject to review by the Supreme Court. The ability of the courts to deal with specific situations and to develop all the necessary evidence and pertinent facts is submitted to be a safeguard which is present under the equity powers of the courts, which is, for the most part, being exercised with constitutional restraint and with the typical fairness expected in equity.

The Constitutional Limits on Congress with Respect to Compulsory Licensing

The powers vested in Congress under the Constitution appear in Article I, Section 8. One of such powers is of course the power:

> "To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries".

Congress also has the right "to regulate commerce" which of course brings within its jurisdiction the right to pass legislation dealing with antitrust matters. As noted previously, the traditional police power is also available to Congress.

> "Congress can certainly regulate interstate commerce to the extent of forbidding and punishing the use of such commerce as an agency to promote immorality, dishonesty or the spread of any evil or harm to the people of other states from the state of origin. In doing this it is merely exercising the police power for the benefit of the public".[53]

Thus, the exercise of the police power by Congress is to be "for the benefit of the public". The latitude with respect to the police power is, however, circumscribed so that it must be used only to "protect" the health, safety and morals of the community and to prevent "the spread of any evil or harm". In other words, regulation under the police power by Congress has never been so broadly construed so as to permit regulation purely on the basis of speculative public benefit.

The United States Supreme Court recognized the limits of Con-

52. *Supra*, note 30.
53. *Brooks v. United States*, 267 U.S. 432, 45 S. Ct. 345 (1925).

gressional powers in the landmark case of *Mugler v. Kansas,*[54] when it stated:

> "Such legislation does not disturb the owner in the control or use of his property for lawful purposes, nor restrict his right to dispose of it, . . ."

Compulsory licensing necessarily does disturb the owner in the control or use of his property for lawful purposes and it does restrict his right to dispose of it, so compulsory licensing really does not fall within the scope of control or regulation contemplated by the police power, whether it be considered under the commerce clause of the Constitution[55] as described by the Supreme Court in *Brooks v. United States,* cited *supra,* or whether the "police power" is more broadly defined as in those cases dealing with the application of police power by the States. The consideration of the scope of police power as a general proposition has been thoroughly considered.[56] It must be concluded that the police powers are primarily directed towards *regulation* and when the regulation reaches the point that it is "taking" the private property, the police power no longer applies, but instead, the constitutional requirement for "public use" by or for the government applies. Since the essence of a patent right is the "exclusive" nature of the right, any diminution of such exclusive nature constitutes a "taking" from the patent owner. Therefore, since compulsory licensing necessarily constitutes a diminution of the exclusive nature of the patent right, it follows that compulsory licensing cannot be considered a mere regulation under the police power, but must be construed as a "taking".

This is not to say that within the framework of the United States Constitution, there cannot be regulations under the police power with respect to patents, and in some rare instances, even compulsory licensing, providing such action is within the framework of the Constitution and patents are treated in the same manner as other private property. The eminent domain provisions with respect to the patents found in 28 U.S.C. 1498 are consistent with the Fifth Amendment obligations permitting the taking of private property for "public use" with "just compensation". "Due process" is also provided for in such statute. The key language of 28 U.S.C. 1498 is that the use or manufacture shall be "by or for the United States", so the taking of the patent is by the government which qualifies

54. 123 U.S. 623, 668-669, 8 S. Ct. 273, 301 (1887).
55. Article 1, section 8, clause 3.
56. Sax, Takings and the Police Power, Yale Law Journal, Volume 74, pages 36-76 (1964).

for the "public use" requirement of the Fifth Amendment. 28 U.S.C. 1498 clearly provides for the "recovery of his reasonable and entire compensation" which has thus been left to the Court of Claims for determination.

A similar but essentially outdated, provision for government use is found in the Tennessee Valley Authority Act, 16 U.S.C. 831r, which provides for use by a government corporation and permits recovery of "reasonable compensation".

The conclusion must be reached that statutory provisions for compulsory licensing would be constitutional only if within the strictures of *Brooks v. United States*.[57] For that reason, mere non-use of a patent, regardless of the length of time of the non-use, would not be the proper subject for compulsory licensing, even though this has been advocated.[58] On the basis of police powers, the Atomic Energy Act compulsory licensing provisions,[59] are constitutionally justified because of the evil or harm to the people if atomic energy is not properly used and controlled.[60] The instances of a commodity such as atomic power or nuclear energy is rare enough so that such statutory provisions do not set a precedent for any general compulsory licensing statutes as some have suggested.

Certainly the ability of the courts to handle the flagrant situations which would require compulsory licensing, other than in special situations such as atomic energy, is amply demonstrated over a long period of time and supports the basic premise that legislation in this area is not only unnecessary, but undesirable. The following brief consideration of some of the recently proposed legislation dealing with compulsory licensing is believed to demonstrate the problems in attempting to handle by anticipatory legislation the exceptional and flagrant abuses which would be constitutionally subject to compulsory licensing by Congress, rather than leaving it to the courts.

Proposed Legislation Re Compulsory Licensing

Where compulsory licensing of patents is required such as under the federal Non Nuclear Energy and Research Development Act of 1974[61], as a result of research, development or other projects

57. *Supra*, note 53.
58. Oppenheim, *Supra*, note 4; *Picard v. United States*, 128 F. 2d 632 (2 Cir. 1942).
59. 42 U.S.C. 2183.
60. Interestingly enough, a recent inquiry by the author to the Atomic Energy Commission indicates that in 1969, one application for a license was made and it was withdrawn in 1971. No orders have issued for compulsory licensing under the Act.
61. H. R. 13565, (93d Cong. 2d Sess.)

which are contracted for with the Government by a private party, the constitutionality of such provisions cannot be questioned. There is of course no "taking" because the arrangement is a voluntary contractual one. Whether or not the provisions are desirable, particularly with respect to the disclosure and licensing of "background patents, trade secrets, knowhow, or proprietary information" from the standpoint of inducement for parties to enter into the contract is certainly questionable. On the other hand, Section 308 of the "Clean Air Act"[62], is submitted to be unconstitutional. It is not within the eminent domain rights of the government since the compulsory licensing is made available to *non-government* entities, and it goes beyond the police powers of Congress as outlined in the *Brooks* v. *United States* case by taking away the exclusive rights of the patent owner with an inadequate showing of a public need by the Administrator of the Act. The requirement that the "unavailability of such (patent) right may result in a substantial lessening of competition or a tendency to create monopoly" inherently exists if the patent was the only method of accomplishing the requirements set by the Administrator. Therefore, that requirement is essentially meaningless and is not a limitation, even though it is couched in the typical antitrust statutory language.

It is submitted that only if an aggravated refusal to market under the patent can be shown and such refusal results in "evil or harm to the people [63] is there any justification for compulsory licensing under the police power. Such limitation consistent with the police power is clearly lacking in Section 308 of the Clear Air Act, and therefore since no other constitutional basis would support such Act, it is the writer's conclusion that Section 308 is not constitutional.

The Hart Bill S. 2287 (93d Cong., 1st Sess.) is likewise submitted to be unconstitutional for several reasons. First, it provides that not only the patent shall be subject to a compulsory license, but "all available knowhow necessary commercially to work the best mode of working the subject matter of the patent" shall also be subject to the compulsory license. The value of "know-how" is in its secrecy and exclusiveness, or at least its control by the owner so as to limit its disclosure. A requirement that this type of information be licensed on a compulsory basis is clearly a confiscation of private property which destroys the property itself. For the same reasons as expressed above in connection with the Clean Air Act, the provisions relating to the lessening of competition are submitted to be

62. 42 U.S.C. 1857 (1967, 1973).
63. *Supra*, note 53.

meaningless. The statute purports to express a public interest to justify the compulsory licensing by directing its attention to subject matter "involving or related to public health, safety, or protection of the environment". Just because a patent happens to fall into those particular areas of public interest does not mean that the police power of Congress can be automatically exercised. There must be a showing of some evil or harm to the people with respect to the public health, safety or environment by reason of the failure to use or license the patented subject matter to justify compulsory licensing under the police power.

The further provision of the Hart Bill which provides for compulsory licensing for the non-working of the patented invention for a period of three years following the date of issue of the patent or four years following the date of application of the patent is clearly unconstitutional. There is no constitutional requirement for the use of a patent. As stated in the famous *Continental Paper Bag* case, cited *supra*:

> "His title is exclusive, and so clearly within the *constitutional* provisions in respect of private property that he is neither bound to use his discovery himself nor permit others to use it."

In a more recent case, the same basic right of a patentee was recognized:

> "The restrictions in the various agreements seem only to be the exercise by a patentee of his right either to decline to practice its invention; to practice it exclusively itself; to grant a single license or exclusive licenses with or without cross-licensing (Sperry Products, Inc. v. Aluminum Co. of America, 171 F. Supp. 901 (N.D. Ohio, 1959), aff'd and mod. 285 F.2d 911, 925-926 (6 Cir. 1960) cert. den. 368 U.S. 890, 82 S. Ct 139, 7 LEd. 2d 87 (1961), or to grant non-exclusive licenses."[64]

It has been suggested by some that since the Constitution provides for the grant of exclusive rights "for limited times" that such constitutional language justifies a shorter period of time for a nonuser of his patent than for a user of his patent, but it is submitted that such thinking is not consistent with or supported by the still viable Supreme Court language from the *Continental Paper Bag* case quoted above. Further, the Constitution would not permit discrimination as to the time limits for patent rights to different inventors

64. *Blohm & Voss AG v. Prudential-Grace Lines, Inc.*, 346 F. Supp. 1116, 1137 (D.C. Md., 1972).

based upon use or non-use. To place an interpretation on the constitutional language "for limited times" so as to attempt to justify compulsory licensing on no other grounds except non-use is submitted to be in total disregard of the normal reading of such words. The absurdity of such a reading of the Constitution is illustrated by considering a hypothetical fact situation in which Mr. Smith has invented a light bulb with a carbon filament and another light bulb with a tungsten filament, both of which are patented. Mr. Smith determines that both light bulbs will work, but he can get the carbon filaments at a lower price, so he elects to make the carbon filament light bulb. The Giant Electric Corp. without any expense for research on its part on this product determines that it can make the tungsten filament bulb at a lower price than Mr. Smith can. If Smith is forced to grant a compulsory license to the Giant Electric Corp. on the tungsten filament bulb, his business could be injured or destroyed by a competitor who had no research cost to recover. Under the non-use proposal, Smith would be forced to grant the license simply because he is not using one of his patents even though he is offering a good product to the public at a price which is reasonable. Such example is not exhaustive, but is merely illustrative of the unfairness and counter-productiveness of such proposal for compulsory licensing *merely* because of non-use of a patent.

Considering now other paragraphs C, D and E of the Hart Bill, it is immediately apparent that they have no police power justification at all and are clearly unconstitutional. Paragraph C would permit a compulsory license to a party who obtained a "subsequently issued patent" which he could not use until the expiration of a prior issued patent. Paragraph D would permit a compulsory license when a person has commercially worked the patented subject matter before the actual filing date of the patent. Paragraph E permits the applicant to seek a compulsory license when the portion of a product which he is making or selling embodies the patented subject matter to the extent of 10% or only a minor part. Quite clearly, none of the foregoing requirements in paragraphs C, D, and E of the Hart Bill have anything to do with the police power of the Federal government and they cannot be justified under the Constitution.

The Nelson Bill S. 954, (83d Cong., 1st Sess.) contains compulsory licensing provisions in Sections 399d and 399e, primarily based upon the price of drugs covered by patents. The drug industry has been under attack, particularly with respect to patents on drugs, for a number of years, and there always seems to be someone suggesting the compulsory licensing of patents on drugs on the unsupported and illogical theory that this is going to make drugs less expensive

and more available to the public. The fact that is overlooked by most advocates of compulsory licensing of drug patents is that, in the absence of the incentive for a substantial return on the successful drugs that are discovered, the incentive to spend millions to invent or discover new drugs would be virtually destroyed or materially diminished. If it were not for the incentive to develop new drugs, there would have been no reason for private industry to have spent the vast sums for research to invent the many "wonder drugs" presently available to the public. Although those of us who are not directly connected with the drug industry might consider it an easy way out to suggest that the drug industry should be the one and only industry subjected to compulsory licensing, it should be remembered that if price or the profit made with respect to any product is the criteria for compulsory licensing, such criteria (to be non-discriminatory) should apply to all patented products. The distaste most businessmen would justifiably have for "Big Brother" regulating the price or profit of their patented products, would certainly cause a devastating curtailment on invention. There is no justification under the police power for broadly requiring compulsory licensing of drug patents on the basis of prices charged, if no misuse or violation occurs. Drugs can be obtained, even though high prices must be paid for some of them. For the indigent, the government can certainly provide appropriations for health purposes under public welfare, as is already done. This is an area where we clearly would be "throwing out the baby with the bath water" if compulsory licensing of drug patents is permitted. Of course, if it could be shown, as in the *Vitamin Technologists* case, that a very vital drug was not being produced by anyone and the patent owner refused to produce it, and such refusal placed persons in danger with respect to life or death, that would justify compulsory licensing and it would be constitutional under the police powers, but that of course is not the basis for the Nelson Bill or any other bills of that type.

"Comprehensive" Compulsory Licensing Statutes With "Safeguards"

The typical reasons advanced for favoring a comprehensive or general compulsory licensing statute with "safeguards"[65] has been the following:

(A) to meet the demands of those who *contend* there has been

65. APLA proposed resolution (Minneapolis Meeting, 1973), which proposal was rejected. Similar proposals have been consistently rejected by the Patent, Trademark & Copyright Section of the American Bar Association in recent years (1972, 1973).

significant suppression of patents (without any substantial proof);

(B) The compulsory licensing statutes are not used, and would not be used, to any extent, particularly when enough "safeguards" are included in the statute;

(C) Compulsory licensing is a present reality in the United States law and practice.

For those who contend that we should adopt such a general compulsory licensing statute because of the allegations of "suppression" or non-use, the answer is submitted to be very simple. The foregoing portion of this article is believed to clearly support the proposition that legislation is not necessary to prevent that type of abuse when it is sufficiently severe and is within the constitutional powers of Congress or the courts to prevent. The *Vitamins Technologists* case is an excellent example where the court stood ready to require compulsory licensing because of the public need for the invention which was being suppressed.

The recent case of *Foster v. American Foundry and Machinery Co.*,[66] although believed beyond the constitutional powers of the court in exercising its equity powers, is an indication of the willingness of the courts to test their outer limits of authority in dealing with suppression and non-use of patents when the need arises.

In answer to the argument that the compulsory licensing statutes with "safeguards" will not be used anyway to any substantial extent,[67] it is submitted such argument does not follow merely because the compulsory licensing statutes which have been in effect for specific instances, such as atomic energy, have not been widely utilized. Certainly, there is a greater temptation to seek compulsory licenses under a general compulsory licensing statute than under a specific one and although foreign compulsory license provisions have not been used extensively, they have certainly been used more than under the Atomic Energy Act. Further, if it be true that there would really be a lack of use of a general comprehensive compulsory licensing statute, what is the reason for having one? Particularly when the courts can handle any compulsory licenses which should be required for abuses of patent rights.

The fact that compulsory licensing is a present reality in a limited sense does not recommend a greater scope for compulsory licensing. At present, compulsory licensing, both in the statutes and in the

66. *Supra*, note 43.
67. A recent report from the Atomic Energy Commission reveals that there has been only one application for a license pursuant to 42 USC 2183 and that application was withdrawn before the license was issued.

court decisions is relatively limited, as it should be. The statutes are discussed above and relate to such things as eminent domain where the government is involved in the use, and those situations which are a clear abuse of patent rights. As noted previously, when the compulsory licensing statutes or the court decisions go beyond merely correcting abuses or carrying out the public policies such as expressed under the anti-trust laws, they become seriously questionable with respect to the constitutional basis. In any event, the presence of some limited compulsory licensing in the law today does not provide a stepping stone into the deep and stormy waters of general compulsory licensing with all the ramifications and disadvantages resulting therefrom.

There are many disadvantages of a general compulsory licensing statute of the type proposed by the recently defeated American Patent Law Association Resolution.[68] Reliance upon the courts to require compulsory licensing where such is within their constitutional authority is much more desirable than any general compulsory licensing statute. The courts have the "flexible approach" rather than the more rigidified approach which necessarily results in any attempt to provide a general compulsory licensing statute. The courts can deal with the problems as they arise and are in a position to obtain the evidence and the facts upon which the court renders such equitable relief. By reason of the responsible nature of most courts, the exercise of the compulsory licensing power will normally be tempered with reason and sparingly used so that it does not become commonplace and destroy the patent system. The statutory approach, on the other hand, tends to encourage compulsory licensing by making it seem accessible and authorized.

Furthermore, the mere presence of a general compulsory licensing statute would tend to promote litigation. The attitude "it's worth a try" for a party to seek the compulsory licensing could become the norm. Such legislation could provide a sword which could be used by large and small companies alike to force competitors into highly disadvantagous positions, not only by the expense of the litigation, but by being forced to license patents which would otherwise provide a competitive advantage and for which the patent owner had paid the price in the form of personal ingenuity, research, expense or royalties. No justification can be seen for thrusting such additional burden upon patent owners when the courts are fully capable of handling compulsory licensing when needed, as is believed evident from the foregoing discussion in this article.

68. *Supra*, note 65.

Conclusion

Most efforts at drafting legislation for compulsory licensing have resulted in unconstitutional legislative proposals, which fortunately have almost universally been refused by Congress. The present statutes which are constitutional, 28 USC 1498 and 42 USC 2183, are examples of the constitutional use of eminent domain and the police power. Any attempt at a general compulsory licensing statute strictly for non-use, excessive pricing or profits, or for other reasons that do not fall within the categories of eminent domain and police power are unconstitutional, and it is submitted that all of the recently proposed legislation in these categories falls within the unconstitutional area.

Furthermore, the need for statutory compulsory licensing has not been established. In cases where there are abuses, misuses or aggravated suppression, as discussed above, the courts are adequately equipped to handle the remedies in equity, within the framework and with the safeguards of the Constitution. The circumstances when compulsory licensing is the judicial remedy have been rare, and should be rare. The courts are equipped with the flexibility to handle compulsory licensing as a remedy when it is needed, and the rigidifying effects of any statutory provisions would only tend to make the task of the courts more difficult.

Compulsory licensing statutes, particularly of a general type, are especially undesirable because of the fostering of litigation to compel licensing an incipient or actual infringer and the consequent resistance to licensing by the patentee. Not only would the constitutional issues have to be resolved with respect to many statutory provisions, but the expense of each individual fact situation which is litigated would have to borne by the patentee and prospective licensee as well.

Having reached the foregoing conclusions, some may raise the now ancient, but still asserted, hue and cry that such position merely demonstrates the "negativism" of the majority of the patent bar. Such criticism is not and should not be disturbing because preventing a weakening of the patent system with the resultant weakening of the American economy by more compulsory licensing statutes transcends the criticism. Although the fight is not of recent vintage, it apparently is one which will continue because the advocates of compulsory licensing seem perennial. Steadfast opposition is necessary to defeat the destructive in-roads proposed by such proponents of compulsory licensing statutes. The importance of the needed opposition should commit us to fight.

INSTRUCTIONS

I. The applicant will fill out in full the questions set forth above.

II. Send ten dollar admission fee with the application.

III. The member endorsing the application should submit by separate letter a statement containing at least the following points:

a. Opinion as to general character of the applicant.

b. Opinion as to professional qualifications and standing of the applicant.

c. Number of years endorser has known the applicant.

d. Opinion as to applicant's past adherence to Code of Professional Responsibility of the Association.

e. Statement of present professional affiliation of applicant.

f. Any other information which will be helpful to the Board of Managers in passing on the application.

Extracts From Articles of Association

ARTICLE III

Membership

SEC. 2. The active membership shall consist of persons who are interested in the branches of the law relating to patents, trademarks, copyrights or unfair competition, whose practice in the opinion of the Board of Managers conforms to the Code of Professional Responsibility of this Association, and who * * * shall also be citizens of the United States and shall be, and have been for a period of five years or more, members, in good standing of the Bar of a court of record of the United States or any State or Territory thereof or of the District of Columbia.

SEC. 3. The junior membership shall consist of persons qualified for active membership except that they shall be, and have been, members, in good standing, of the Bar, as referred to in Section 2, for a period of less than five years from the date of their first admission. * * *. When junior members shall have completed five years membership of the Bar, in good standing, they shall be transferred automatically to active membership.

ARTICLE V

Election of Members

SECTION 1. Application for membership * * * shall be made in writing to the Board of Managers, accompanied by any prerequisite admission fee, * * *. If an application receives favorable action by the Board, the name of the applicant and his endorser shall be published to all members. In the absence, at the end of thirty days after such publication, of an objection in writing by any member, the applicant shall be considered as duly elected.

ARTICLE VI

Fees and Dues

SECTION 1. There shall be an admission fee, to be paid at the time of making application for membership, and to be refunded if the applicant is not elected, * * *.

SEC. 2. The dues payable for each year by active, junior and associate members * * * shall be fixed from time to time by the Board of Managers at such amount as it deems desirable for the best interests of the Association, * * *.

SEC. 3. The dues payable for each year shall be payable in advance on the first day of October * * *.

* * *

Effective Oct. 1, 1969

Admission Fee	$10.00
Dues, Active Members	$40.00
Dues, Junior Members	$15.00

Tear out and give to colleague to apply for membership in the American Patent Law Association.

AMERICAN PATENT LAW ASSOCIATION

2001 Jefferson Davis Highway, Suite 203

Arlington, Virginia 22202

Application for Membership

....., 19.....

1. Name .....

2. Date of Birth ..... 3. Citizen of ... .

4. Residence address .....

5. Office address .....

6. Firm or other affiliation .....

7. Bar membership (indicating jurisdiction and date of admission)

.....

.....

8. Have you ever been reprimanded by or refused admission to practice, disbarred or suspended from practice before any court or administrative agency? .....

9. Have you ever held yourself out as a patent lawyer or solicitor by way of paid advertisements? .....

10. If the answer to questions 8 or 9 is in the affirmative in any respect, give complete details on separate sheets affixed to this application.

Guidelines for Admission to Membership in the American Patent Law Association

Lawyers in Private Practice

Office Location and Admission to the Bar—A lawyer applicant may be accepted for active or junior membership in the American Patent Law Association if he (1) is a member in good standing of the bar of the court of record of any state, commonwealth, territory, or possession of the

United States, or the District of Columbia, (2) maintains a *bona fide* office for the practice of law in a jurisdiction where its maintenance is not in violation of any regulation of the profession in that jurisdiction, and (3) maintains no office for the practice of law in a jurisdiction where to do so would violate D.R. 3-101 (B).

Lawyers Not in Private Practice

1. Employed in Jurisdiction Where Admitted—A lawyer applicant may be accepted for active or junior membership in the American Patent Law Association if he (1) is a member in good standing of the bar of a court of record of any state, commonwealth, territory, or possession of the United States, or the District of Columbia, and (2) is regularly employed by another as a lawyer in a *bona fide* office maintained by that other in a jurisdiction in which the applicant is a member of the bar.

2. Employed in a Jurisdiction Where Not Admitted—A lawyer applicant may be accepted for active or junior membership in the American Patent Law Association if he (1) is a member in good standing of the bar of a court of record of any state, commonwealth, territory, or possession of the United States, or the District of Columbia and (2) is regularly employed by another as a lawyer in a *bona fide* office maintained by that other in a jurisdiction in which the applicant is not a member of the bar, so long as he advises or represents only his employer or its lawful designees in that jurisdiction and no regulation of the profession in that jurisdiction forbids him to so advise or represent without being a member of the bar in that jurisdiction.

CERTIFICATE

I have read and do understand the GUIDELINES FOR ADMISSION TO MEMBERSHIP IN THE AMERICAN PATENT LAW ASSOCIATION and I hereby certify that I am not engaged in the practice of law in violation of any applicable regulation of the legal profession or in violation of the Code of Professional Responsibility.

.....

Applicant

ENDORSEMENT

I hereby state that, to the best of my knowledge and belief, the above named applicant is qualified for membership in the Association and I recommend him for membership. A separate statement concerning his character, professional standing and qualifications is presented with this application.

.....

Member, American Patent Law Association